

Commonwealth of Massachusetts



Comprehensive Annual Financial Report

*For the Fiscal Year Ended June 30, 2001
(under GASB34)*

Martin J. Benison, CGFM
State Comptroller

Prepared by The Financial Reporting and Analysis Bureau

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***“Hail to the Sunrise”
Charlemont, Massachusetts
Sculpture by Joseph P. Polia, 1932***

Located on the famous Mohawk Trail, facing East overlooking the Deerfield river at the site of the old Indian fordway, Hail to the Sunrise depicts a Mohawk Indian beckoning with uplifted arms in supplication to the Great Spirit the new-born day of hope and peace for America.

It is a monument to the Five Indian Nations of the Mohawk Trail. The inscription on the arrowhead tablet at the statue's base reads: "Hail to the Sunrise - In Memory of the Mohawk Indian." This eight foot statue is a 900 pound bronze casting erected on a nine-ton boulder. The memorial includes a pool with 100 inscribed stones from various tribes and councils from throughout the United States.

After years of fundraising, it was erected by the Improved Order of the Red Men and their women's auxiliary, the Allied Councils of Pocahontas of the Old Deerfield conference.

Impressive unveiling ceremonies were held on October 1, 1932, with the surrounding hills ablaze with foliage of highly-painted Indian colors. Joe Mitchell Chapple in his address at the unveiling said; “Hail to the Sunrise symbolizes the hopefulness of humanity though the ages. This is an occasion when we commemorate the Red Man – not only the organization that has kept alive the great fundamental traditions of Freedom, Friendship, and Charity, but the race of Red Men from whom we have taken and inherited the boundless territory of this great republic.”

The Improved Order of Red Men and Degree of Pocahontas was consolidated in 1834 from the St. Tamina Society, the Sons of Liberty and the Society of Red Men. Washington, Hancock and Adams were early promoters and organizers of this Order.

It is the United States oldest benevolent society of distinctively American origin.

Congress granted them a Charter “To Inspire Fraternity and Greater Love of the Principals of American Liberty.”

Photography courtesy of Kindra Clineff, Massachusetts Office of Tourism and Travel

Research courtesy of Norma Coli, Charlemont Historical Commission and the Blue Heron Farm, The Mohawk Trail by William B. Browne, Elder Printing Co, the Greenfield Recorder Gazette and the Red Men Magazine - the Fraternal Publication of the Red Men, dedicated to Americanism.

Comprehensive Annual Financial Report

GASB 34 Conversion For the Fiscal Year Ended June 30, 2001

Table of Contents

I. INTRODUCTORY SECTION	III
TITLE PAGE.....	III
TABLE OF CONTENTS	IV
LETTER OF TRANSMITTAL.....	1
ACKNOWLEDGEMENTS.....	17
COMMONWEALTH ORGANIZATIONAL STRUCTURE.....	18
PRINCIPAL COMMONWEALTH OFFICIALS	19
CERTIFICATE OF ACHIEVEMENT.....	21
II. FINANCIAL SECTION.....	23
INDEPENDENT AUDITOR’S REPORT	25
MANAGEMENT’S DISCUSSION AND ANALYSIS	27
BASIC FINANCIAL STATEMENTS: GOVERNMENT – WIDE FINANCIAL STATEMENTS:	
<i>Statement of Net Assets</i>	42
<i>Statement of Activities</i>	44
GOVERNMENTAL FUND FINANCIAL STATEMENTS:	47
COMBINING BALANCE SHEET	48
<i>Reconciliation of Balance Sheet – Governmental Funds to the Statement of Net Assets</i>	49
<i>Combining Statement of Revenues, Expenditures and Changes in Fund Balances</i> .	50
<i>Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities</i>	52
PROPRIETARY FUND FINANCIAL STATEMENTS:	
<i>Combining Statement of Net Assets</i>	54
<i>Combining Statement of Revenues, Expenses and Changes in Fund Net Assets</i>	55
<i>Combining Statement of Cash Flows</i>	56
FIDUCIARY FUND FINANCIAL STATEMENTS:	
<i>Combining Statement of Fiduciary Net Assets</i>	58
<i>Combining Statement of Changes in Fiduciary Net Assets</i>	59
COMPONENT UNIT FINANCIAL STATEMENTS:	
<i>Combining Statement of Net Assets</i>	60
<i>Combining Statement of Revenues, Expenses and Changes in Net Assets</i>	61
<i>Table of Contents - Notes to the Financial Statements</i>	63
<i>Notes to the Financial Statements</i>	64
REQUIRED SUPPLEMENTARY INFORMATION-OTHER THAN MANAGEMENT’S DISCUSSION AND ANALYSIS:	117
<i>Budgetary Comparison Schedule – Major Governmental Funds</i>	118
<i>Note to Required Supplementary Information – Budgetary Reporting</i>	119

Comprehensive Annual Financial Report

GASB 34 Conversion For the Fiscal Year Ended June 30, 2001

Table of Contents (Continued)

OTHER SUPPLEMENTARY INFORMATION:	121
<i>Governmental Funds Combining Schedule – Minor Funds – Combining Balance Sheet</i>	122
<i>Governmental Funds Combining Schedule – Minor Funds – Combining Statement of Revenues, Expenditures and Changes in Fund Balances</i>	123
<i>Proprietary Funds Combining Schedule – State College System – Statement of Net Assets</i>	124
<i>Proprietary Funds Combining Schedule – State College System – Statement of Revenues, Expenses and Changes in Net Assets</i>	126
<i>Proprietary Funds Combining Schedule – Community College System – Statement of Net Assets</i>	128
<i>Proprietary Funds Combining Schedule – Community College System – Statement of Revenues, Expenses and Changes in Net Assets</i>	130
<i>Non-Major Component Units Combining Schedule - Statement of Net Assets</i>	132
<i>Non-Major Component Units Combining Schedule – Statement of Revenues, Expenses and Changes in Net Assets</i>	135
III. STATISTICAL SECTION	139
<i>Ten-Year Schedule of Revenues and Other Financing Sources – All Governmental Fund Types – Fund Perspective</i>	140
<i>Ten-Year Schedule of Expenditures and Other Financing Uses – All Governmental Fund Types – Fund Perspective</i>	142
<i>Ten-Year Schedule of Annual Debt Service Expenditures</i>	144
<i>Ten-Year Schedule of Per Capita General Long-Term Bonded Debt</i>	145
<i>Component Units Revenue Bond Coverage For The Last Ten Years</i>	146
<i>Calculation of Transfers: Stabilization Fund</i>	148
<i>Calculation of Transfers: Tax Reduction Fund</i>	149
<i>Ten-Year Schedule of Massachusetts And United States Resident Population</i>	150
<i>Nonagricultural Employment By Sector and Industry in Massachusetts And the United States For 2001</i>	151
<i>Ten-Year Schedule of Annual Average Civilian Labor Force, Unemployment and Unemployment Rates For Massachusetts and the United States</i>	152
<i>Twenty-Five Largest Private Sector Massachusetts Employers</i>	153
<i>Standard and Poors 500 Companies Headquartered in Massachusetts</i>	154
<i>Ten-Year Schedule of Massachusetts And United States Resident Per-Capita Net Income</i>	155

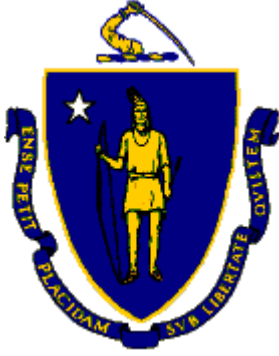
INTRODUCTORY SECTION



Title page
Table of Contents
Letter of Transmittal
Certificate of Achievement
Commonwealth Organizational Structure
Principal State Officials



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*Martin J. Benison, Comptroller
One Ashburton Place
Boston, MA 02108*

April 30, 2002

*To the Citizens of the Commonwealth of Massachusetts,
Governor Jane Swift, and Honorable Members of the General
Court*

I am pleased to transmit to you a draft conversion of the Commonwealth's fiscal 2001 Comprehensive Annual Financial Report in the format prescribed under Government Accounting Standards Board Statements 34, 35, 37 and 38. This report is the first step in a process that will culminate by the release of the Commonwealth's fiscal 2002 Comprehensive Annual Financial Report, on or before December 31, 2002.

This draft conversion was performed with information that was available as of June 30, 2001. That information was accounted for under standards that existed previous to this implementation. A wealth of other information was gathered from the Commonwealth's various agencies necessary to produce this draft conversion. The purpose of this conversion is to present to you what the Commonwealth's financial statements will look like under these new standards.

This draft conversion report is presented in three sections: **Introductory**, **Financial** and **Statistical**. The report is the primary means of reporting the Commonwealth's financial activities. The objective of this new model is to provide a clearer picture of our government as a single, unified entity, will retaining certain traditional financial information previously presented.

This **Introductory Section** contains an overview of the Commonwealth's economic performance, a review of current initiatives and summary financial data. This section contains information that existed as of June 30, 2001. The **Financial Section** contains a Management's Discussion and Analysis section, which examines and summarizes financial and other results. It also contains Government-wide Financial Statements, which are the new statements presented under the new standards. It contains Fund Financial Statements for Governmental Funds, Proprietary Funds, Fiduciary Funds and Statements for Component Units. The section also includes the Notes to the Financial Statements, Required Supplementary Information and Other Supplementary Information. The **Statistical Section** contains selected financial and demographic information.

Generally Accepted Accounting Principles ("GAAP") require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. Usually, the Commonwealth's MD&A can be found immediately following the independent auditor's report from Deloitte and Touche, LLP. However, for this 2001 translation document, we are providing the MD&A immediately following this transmittal letter.

PROFILE OF THE COMMONWEALTH

This report consists of management's representations concerning the finances of the Commonwealth. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the Commonwealth has established a comprehensive internal control framework that is designed to protect the Commonwealth's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Commonwealth's financial statements in conformity with GAAP. Because the cost internal controls should not outweigh their benefits, the Commonwealth's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

INTERNAL CONTROL ENVIRONMENT

Chapter 647 of the Acts of 1989, places authority and responsibility for internal controls with the head of each executive department, constitutional office, and branch of government. The Office of the Comptroller issues internal control guidelines and the Office of the State Auditor may investigate departments with risk of internal control weaknesses.

The Office of the Comptroller continues to deliver training sessions and workshops for department managers regarding risk assessment and mitigation in the Commonwealth's highly automated environment.

Absolute assurance with respect to internal control is prohibitively expensive. Using risk assessment criteria set forth in the guidelines and stressed in the training, the objectives of the Commonwealth's internal control structure are to provide management and the public with reasonable assurance that internal control systems do not have material weaknesses.

The Office of the Comptroller has been working to further strengthen the guidance for Internal Controls for the Commonwealth through a statewide Internal Control Campaign. Using the Committee of Sponsoring Organizations ("COSO") Report of the Treadway Commission as a basis, the office has issued an expanded and updated Internal Control Guide for managers of the Commonwealth. The goal of this effort is to present a sound set of practices that enhance financial credibility throughout the Commonwealth.

As part of the fiscal year 2001 audit, the Commonwealth continued the emphasis on the analysis of departmental internal control plans. The goal is to have departments not just think of their plans as fiscal control documents but management documents that assess risk across all programmatic areas of the department and document strategies to mitigate those risks. The plans, which included developing customized training for particular departments, scheduling monthly internal control classes, devoting hundreds of single audit hours in the review of internal control plans, development of internal control models and risk assessment techniques and making managers generally aware of the importance of these controls. As a result of this emphasis, the number of current year findings have decreased, the findings repeated from previous years have decreased, and the findings resolved in one year reached an all time high. We clearly have the attention of our departments and plan to continue this focus next year through the continuation of the education process, expansion into program areas to compliment our success in the financial arena, and increased communication of internal information at all levels of government.

REPORTING ENTITY

The financial statements incorporate 156 departments. These departments include the various agencies, boards, and commissions, the 25 institutions of higher education, the judicial and legislative branches of government, and constitutional offices.

The departments record their daily financial operations in the state accounting system called the Massachusetts Management Accounting and Reporting System ("MMARS") operated by the Office of the Comptroller.

In addition, the financial statements include 38 independent public authorities and the State Employees' and Teachers' Retirement Systems. These component units meet the criteria for inclusion in the reporting entity in accordance with GAAP, which are further described in Note 1 to the financial statements.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

MMARS is the computerized, statewide accounting system used by all departments to control and account for their financial activity under the statutory basis of accounting. The financial operations of the authorities and certain non-appropriated higher education funds are accounted for through their own independent accounting systems.

MMARS is designed to satisfy all requirements of the Commonwealth's statutory basis of accounting and financial reporting. Any additional information needed to prepare financial statements according to GAAP is provided through a combination of MMARS system-generated data, information compiled by departments, and the submission of audited financial statements from certain independent authorities.

During fiscal year 2002 and for the next three years, the Commonwealth will take steps to upgrade MMARS from a "green screen" mainframe-based system to one that is an Internet based application. We believe that it is time to upgrade the system to take advantage of current and future technologies to position the Commonwealth to provide seamless integration of its e-government applications to its "back-end" budgetary control and financial management systems.

CASH AND INVESTMENTS

The State Treasurer and Receiver – General controls cash and investments with the exception of pension assets, which are managed by the Pension Reserves Investment Trust. Each department deposits cash receipts daily into a Treasury controlled bank account. Weekly and daily warrants for disbursements are prepared by the Comptroller, and reviewed and approved by the Governor's Council; the Treasurer issues disbursements. The banking and disbursement process has been recently streamlined to optimize the use of electronic funds transfer and electronics benefits transfer.

A system of bank depository and disbursement accounts and "lockboxes" are employed by the Treasurer's Office to maximize daily cash balances. The Treasurer manages these cash balances in The Massachusetts Municipal Depository Trust, ("MMDT") and other funds to optimize interest earnings. The Treasurer's Office invests cash from these general accounts in short-term securities and other investments. A discussion of cash and investments is presented in Note 3 to the general purpose financial statements.

The Treasurer is also responsible for quarterly cash flow plans, weekly variance reporting and, jointly with the Executive Office for Administration and Finance, annual and quarterly cash management plans. Taxes and non-tax inflows, warrants, other outflows, and short and long-term borrowings are monitored against these plans.

Fiscal year 2001 is the eighth year of the Commonwealth's implementation of the United States Cash Management Improvement Act ("CMIA.") The CMIA requires the states to measure interest income on federal funds drawn from the U.S. Treasury prior to disbursement, and for the U.S. Treasury to measure interest income on funds drawn down subsequent to disbursement. A settlement of interest due to or due from the Commonwealth and federal government is computed.

CAPITAL ASSETS

These financial statements include the capital assets of the Commonwealth. A discussion of capital assets accounting is included in the MD&A that is part of the basic financial statements. More detailed information about capital assets can be found in the notes to the financial statements.

DEBT

The Commonwealth funds its capital appropriations by authorizing the issuance of long-term bonds. General obligation bonds are backed by the full faith and credit of the Commonwealth, including the Commonwealth's power to levy additional taxes to ensure repayment of the debt. The Commonwealth has issued special obligation debt, backed by certain revenue streams and grant anticipation notes, which are secured by future federal grant cash flows. To limit the Commonwealth debt burden, and control the degree to which debt service creates pressure on the operating budget, the Administration has implemented a five-year capital spending plan. This administrative policy has existed for several years.

In fiscal year 1997, Standard and Poor's upgraded the rating for the Commonwealth's General Obligation Debt from "A+" to "AA-". The effect of the capital spending plan policy, the acceleration of funding of the Commonwealth's pension liability and the string of operating surpluses were cited as reasons for the upgrade. The current credit ratings from Moody's is Aa2 and Fitch Investor Services is AA-.

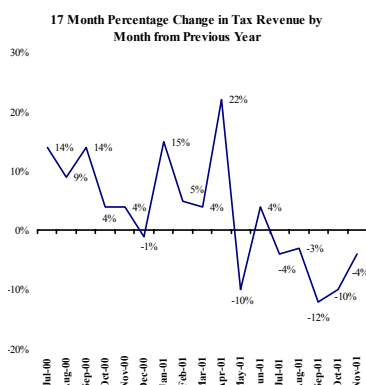
As authorized by state finance law, the State Treasurer may utilize short-term borrowing to support governmental cash flow. Other debt consists of certificates of participation and capital lease agreements. Such financing arrangements are used to acquire capital assets, for example computer equipment and motor vehicles. The Commonwealth continued to utilize this form of financing in fiscal year 2001.

Additional information on Commonwealth debt, including guaranteed debt of independent public authorities, is presented in Notes 7, 8, and 12 to the financial statements.

RISK FINANCING

The Commonwealth assumes the risk of loss for property damage and personal injury, breach of contract, condemnation proceedings, and other alleged violations of law, and is defended by the Attorney General's Office in such cases.

ECONOMIC CONDITIONS AND OUTLOOK FOR THE COMMONWEALTH



I am pleased to report that through fiscal year 2001 the Commonwealth's financial condition remained strong, however the picture is changing. Since fiscal year 1994 this office has reported that the fiscal health of the Commonwealth is strong. The Commonwealth has enjoyed over seven years of prosperity and growth. The Commonwealth's unemployment level shrunk during the time period by 42% from 205,000 citizens unemployed in 1994 to 86,000 in 2000. At some point the economy was anticipated to slow down. As of June 30, 2001, the Federal Reserve Bank of Boston, in its monthly "New England Economic Indicators," reported that the number of people unemployed in our Commonwealth has increased to 113,000 or a rate of 3.4%. The rate increased to 4.2% in October, 2001. Both rates are under the "full employment" threshold of 5%, but the rate is rising. The same report shows that the consumer confidence index has slipped in our Commonwealth from a rate of 156 a year ago, to 94 as of October 2001 with future expectations for a slower economy. This softening economy is reflected in tax receipts for the first half of fiscal year 2002. This softening economy is reflected in tax receipts for the first five months of the fiscal year. The Secretary for Administration and Finance revised his tax revenue estimate downward from nearly \$15.7 billion to over \$14.9 billion, a decrease of over \$700 million. As of the end of November, tax collections totaled nearly \$5.7 billion, or \$450 million below the same period in fiscal year 2001. These results portray a real decline from last year's economic boom.

Prudent planning throughout the 1990s has left the Commonwealth well positioned for this economic slow down. The Commonwealth ends fiscal year 2001 with a \$3 billion surplus in its budgeted funds. Since fiscal year 1991, the Commonwealth's Stabilization Fund, sometimes called the "rainy day fund," has grown from a balance of \$59 million to over \$1.7 billion, its maximum. In addition, in the final set of appropriation acts for the fiscal year, the Commonwealth set aside over \$579 million in fiscal year 2001 surpluses. Of this amount, \$422 million was used to balance the fiscal year 2002 budget, with the remainder held in stabilization. In previous years, year-end transfers of budget surpluses were made to the capital project funds to make strategic investments for the management of the Commonwealth's capital budget, to defease high interest debt that otherwise could not be refunded, and to increase reserves. Similar transfers may not be able to be made during this period of economic slowdown.

The results of fiscal year 2001 helped prepare the Commonwealth for this changing economy. For the eleventh consecutive year, revenues have exceeded expenditures in the governmental funds. As of June 30, 2001, I am now pleased to report a positive GAAP governmental fund balance of \$4.5 billion (fund perspective) and a \$5.1 billion entity-wide net asset balance. In fiscal year 1990 and fiscal year 1991, the Commonwealth resorted to over \$1.8 billion in deficit borrowing to start down the road of putting its fiscal house in order. In 1991 the Statutory Basis Fund Balance in the budgeted funds was \$237 million. This same balance when computed in accordance with GAAP, was a deficit of \$761 million. Today's GAAP fund balance in excess of \$4.4 billion in the fund perspective, is the strongest evidence of the Commonwealth's over decade long commitment to conservative budgeting and strategic investments in its future stability to prepare for this slowdown. But, this fund balance contains a considerable amount of funds that are not "free cash." \$1.7 billion of this balance is reserved for Stabilization. Another \$1.8 billion is reserved in capital project funds containing bond proceeds that must be used for the Central Artery / Tunnel Project ("CA/T.")

The Stabilization Fund is a strategic tool at decision makers' disposal to assist the Commonwealth through this difficult time. It may be used in three circumstances. The first is to make up any difference between the actual state revenues and the allowable state revenues in the case of a revenue shortfall. The second is to replace federal funds in the case of a shortfall. Finally, the fund may be used for any event that threatens the health, safety, welfare, or stability of the Commonwealth, including an economic downturn.

As portrayed in the graphics of the monthly change in tax revenues for the past sixteen months, the slowdown is definitely here. The Commonwealth has begun to tap these resources in connection with budget reductions as part of the recently enacted fiscal year 2002 budget. The administration and Legislature have wisely taken a balanced approach using \$806 million from reserves combined with necessary reductions in service levels throughout the state. This assures that the structural gap faced in preparing the fiscal year 2003 budget will be less ominous and reserve will be available in future years. This plan to use surpluses judiciously over multiple years is essential to exiting this economic downturn with a service level that can be supported with available resources.

BUDGETED FUNDS OPERATIONS

The portion of state finances that generates the greatest degree of interest is the Budgeted Funds. These funds include the General, Local Aid, Highway, and certain Special Revenue Funds, which comprise the annual state budget. These funds are also important to analyze as the bulk of their revenues are derived from taxation and federal reimbursements. The expenditures in these funds are largely general governmental operations, Medicaid, Local Aid, debt service and public assistance.

Generally, funds for the Commonwealth's programs and services must be appropriated by the Legislature. The process of preparing a budget begins at the administrative level early in the fiscal year preceding the fiscal year for which the budget will take effect. The legislative budgetary process begins in late January (or, in the case of a newly elected Governor, not later than March) with the Governor's submission to the Legislature of a budget recommendation for the fiscal year commencing in the ensuing July. By statute, the Legislature and the Governor must approve a balanced budget for each fiscal year, and no supplementary appropriation bill may be approved by the Governor if it will result in an unbalanced budget. However, this is a statutory requirement that may be superseded by an appropriation act. Both the House and the Senate through their respective Ways and Means committees propose budgets. A conference committee then develops a compromise budget for consideration both houses, which upon adoption is sent to the Governor. The Governor has the right to veto the budget in whole, disapprove or reduce specific line items. The Legislature may then override these actions by a two – thirds vote of both the House and the Senate.

During the course of the fiscal year, the Comptroller monitors budgetary accounts and notifies the Secretary of Administration and Finance and the House and Senate Committees on Ways and Means whenever the appropriation for a particular account has been depleted. Whenever the Governor believes that existing appropriations are insufficient to provide for projected expenditures under authorized programs, the Governor may seek supplemental appropriations for particular programs or spending items. The Secretary of Administration and Finance is required to compute projected deficiencies and, under Section 9C of Chapter 29 of the General Laws, the Governor is required to reduce allotments, to the extent lawfully permitted to do so, or submit proposals to the Legislature to raise additional revenues or to make appropriations from the Stabilization Fund to cover such deficiencies. The Supreme Judicial Court has ruled that the Governor's authority to reduce allotments of appropriated funds extends only to appropriations of funds to state agencies under the Governor's control and not, for example, to local aid.

Highlights of the fiscal 2000 and fiscal 2001 budgets include (expressed in millions – statutory basis):

Fiscal 2000 and 2001 Budgets - Statutory Basis									
(expressed in thousands)									
	Amount Appropriated		Percentage of Total Appropriations		Increase / (Decrease) from Prior Year		Percentage Increase / (Decrease)		
	2000	2001	2000	2001	2001		2001		
General Government	\$	1,695,206	\$	1,657,529	7.6%	7.6%	\$	(37,677)	-2.2%
Judiciary		558,896		605,737	2.5%	2.8%		46,841	8.4%
Direct Local Aid		4,710,178		4,984,417	21.1%	22.8%		274,239	5.8%
Medicaid		4,324,593		4,727,216	19.4%	21.6%		402,623	9.3%
Pensions		987,374		1,041,483	4.4%	4.8%		54,109	5.5%
Higher Education		1,009,227		1,109,719	4.5%	5.1%		100,492	10.0%
Environmental and Recreation		242,938		256,572	1.1%	1.2%		13,634	5.6%
Communities and Development		156,571		159,467	0.7%	0.7%		2,896	1.8%
Health & Human Services		4,144,748		4,316,168	18.6%	19.8%		171,420	4.1%
Transportation and Construction		1,367,233		208,522	6.1%	1.0%		(1,158,711)	-84.7%
Education		384,551		450,288	1.7%	2.1%		65,737	17.1%
Public Safety		1,133,267		1,207,673	5.1%	5.5%		74,406	6.6%
Economic Development		61,485		66,068	0.3%	0.3%		4,583	7.5%
Elder Affairs		198,228		222,989	0.9%	1.0%		24,761	12.5%
Consumer Affairs		49,368		54,880	0.2%	0.3%		5,512	11.2%
Labor		76,249		79,337	0.3%	0.4%		3,088	4.0%
Debt Service	\$	<u>1,203,243</u>	\$	<u>704,032</u>	<u>5.4%</u>	<u>3.2%</u>	\$	<u>(499,211)</u>	<u>-41.5%</u>
Total Budgeted Appropriations	\$	<u>22,303,355</u>	\$	<u>21,852,097</u>	<u>100.0%</u>	<u>100.0%</u>	\$	<u>(451,258)</u>	<u>-2.0%</u>
Other Financing Uses		<u>977,182</u>		<u>1,588,464</u>				<u>611,282</u>	<u>62.6%</u>
Total Budgeted Appropriations and Other Financing Uses	\$	23,280,537	\$	23,440,561	100.0%	100.0%	\$	160,024	0.7%

FINANCIAL INFORMATION

GENERAL GOVERNMENT FUNCTIONS

Most financial operations of the Commonwealth are reported in the Governmental Funds. The Governmental fund type includes all funds where the Commonwealth imposes its sovereign authority to collect revenues and authorize expenditures. This includes all Budgeted Funds (General and several Special Revenue Funds,) all other (non-budgeted) Special Revenue Funds, and the Capital Project Funds. When viewed as a whole, these funds portray the Commonwealth's comprehensive governmental financial activity.

The Commonwealth bonds for capital projects in arrears. These expenditures and financing sources are recorded in the Capital Projects Funds component of the Governmental Funds total. The practice of bonding in arrears allows for a high degree of certainty in project spending, mitigating a potential adverse tax consequence.

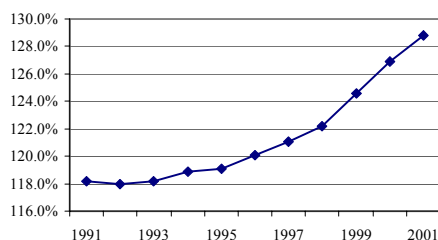
Governmental Funds: Revenues and Other Financing Sources – Statutory Basis
(expressed in thousands)

	Amounts		Percentage of Total		Increase (Decrease)	Percentage
	<u>2000</u>	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>from Prior Year</u>	<u>Increase / (Decrease)</u>
Taxes	\$ 15,702	\$ 16,753	41.0%	43.5%	\$ 1,051	6.7%
Federal Reimbursements	4,364	4,668	11.4%	12.1%	304	7.0%
Federal Grants	1,360	1,450	3.6%	3.8%	90	6.6%
Lotteries	3,913	4,138	10.2%	10.7%	225	5.8%
Assessments	487	585	1.3%	1.5%	98	20.1%
Motor Vehicle licenses and registrations	285	311	0.7%	0.8%	26	9.1%
Fees, investment earnings, etc.	2,014	2,212	5.3%	5.7%	198	9.8%
Proceeds of general obligation bonds	1,762	1,912	4.6%	5.0%	150	8.5%
Proceeds of refunding bonds	-	999	0.0%	2.6%	999	100.0%
Other operating transfers	<u>8,403</u>	<u>5,487</u>	<u>21.9%</u>	<u>14.2%</u>	<u>(2,916)</u>	<u>-34.7%</u>
Total revenues and other financing sources	<u>\$ 38,290</u>	<u>\$ 38,515</u>	<u>100.0%</u>	<u>100.0%</u>	<u>\$ 225</u>	<u>0.6%</u>

Governmental Funds: Expenditures and Other Financing Uses – Statutory Basis
(expressed in millions)

	Amount Expended		Percentage of Total Expenditures		Increase / (Decrease)	Percentage
	<u>2000</u>	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>from Prior Year</u>	<u>Increase / (Decrease)</u>
General Government	\$ 1,477,214	\$ 1,536,263	6.8%	7.2%	\$ 59,049	4.0%
Judiciary	547,845	588,065	2.5%	2.8%	40,220	7.3%
Direct Local Aid	4,673,942	4,969,440	21.6%	23.3%	295,498	6.3%
Medicaid	4,269,990	4,642,342	19.7%	21.8%	372,352	8.7%
Pensions	986,303	1,040,121	4.6%	4.9%	53,818	5.5%
Higher Education	996,032	1,102,258	4.6%	5.2%	106,226	10.7%
Environmental and Recreation	218,357	234,642	1.0%	1.1%	16,285	7.5%
Communities and Development	138,098	140,841	0.6%	0.7%	2,743	2.0%
Health & Human Services	3,975,451	4,220,765	18.4%	19.8%	245,314	6.2%
Transportation and Construction	1,360,073	199,938	6.3%	0.9%	(1,160,135)	-85.3%
Education	364,437	393,117	1.7%	1.8%	28,680	7.9%
Public Safety	1,097,615	1,184,873	5.1%	5.6%	87,258	7.9%
Economic Development	35,451	51,310	0.2%	0.2%	15,859	44.7%
Elder Affairs	189,760	214,036	0.9%	1.0%	24,276	12.8%
Consumer Affairs	46,293	51,127	0.2%	0.2%	4,834	10.4%
Labor	55,600	53,843	0.3%	0.3%	(1,757)	-3.2%
Debt Service	<u>1,193,329</u>	<u>675,839</u>	<u>5.5%</u>	<u>3.2%</u>	<u>(517,490)</u>	<u>-43.4%</u>
Total Budgeted Appropriations	<u>21,625,790</u>	<u>21,298,820</u>	<u>100.0%</u>	<u>100.0%</u>	<u>(326,970)</u>	<u>-1.5%</u>
Other Financing Uses	<u>4,422,332</u>	<u>1,773,045</u>			<u>(2,649,287)</u>	<u>-59.9%</u>
Total Budgeted Appropriations and Other Financing Uses	<u>\$ 26,048,122</u>	<u>\$ 23,071,865</u>	<u>100.0%</u>	<u>100.0%</u>	<u>\$ (2,976,257)</u>	<u>-11.4%</u>
Governmental Funds - Net Increase in Fund Balance		<u>\$725,576</u>				

**Massachusetts vs. United States
Year to Year Per Capita
Net Income Change
1991 – 2001**



ECONOMIC AND FINANCIAL PROSPECTS FOR THE FUTURE

Massachusetts and the rest of the nation are in the midst of a profound economic downturn exacerbated by the events of September 11th. Even though our Commonwealth is home to many world-renowned institutions of medicine and higher education, both public and private, keeping the economy relatively stable and full of ingenuity, no sector is immune from the economy. Tourism, a significant component of our economy, is our third largest industry. Most economic data points to a significant drop in activity in the short term for the tourism industry. According to a report released by the Massachusetts Office of Travel and Tourism on October 10, 2001, the lodging industry component alone is expected to lose \$241 million in sales this year post September 11th. Overall, the lodging industry, according to the report is expected to generate over \$324 million less in sales this year than in 2000.

Massachusetts' employment had been growing steadily since 1992. The Massachusetts' seasonally adjusted unemployment rate, currently at 3.4%, remains below the national seasonally adjusted rate of 4.5% as of June 30, 2001. Massachusetts' rate however, has risen quickly from a low of 2.3% in December of 2000. Also as of June 30, 2001, Commonwealth per capita income still outpaced the nation as shown in the Massachusetts vs. United States Year-to-Year Per Capita Income Graph. This graph shows that Massachusetts's per capita income level has been and is increasingly growing compared to the rest of the nation.

The Commonwealth, with an international reputation for medical, cultural, historical, and educational institutions, remains the economic and educational hub of New England. The Commonwealth's economy remains diversified but its strongest component is its knowledge-based technology and service industries.

Massachusetts' infrastructure provides strong support for this knowledge-based economy. There are over 120 colleges and universities located in Massachusetts, and the 2000 US Census has estimated that 35% of the residents over age 25 have earned bachelor's degrees, compared to an estimate of 25.1% for the United States as a whole. Our capital, Boston, has over 20 hospitals and three medical schools.

Inflation continues to largely be in check. The Boston consumer price index though has risen 4.9% from July 2000 to July 2001, as opposed to only 3.0% for the rest of the country.

The Commonwealth did not finalize its fiscal year 2002 budget until December 5th. In the absence of a budget, the Commonwealth had operated under a provisional budget of \$22.6 billion, virtually all of which was comprised of the lower of the House or Senate budget proposals for each respective budgeted line item. Budgeted revenues and other sources, as estimated by the Executive Office for Administration and Finance, however, were projected at approximately \$21.5 billion, including transfers and other receipts. The estimate assumes tax revenues will be 7.1% lower than the fiscal year 2001 actual collections of \$16.0 billion, after accounting for sales tax funds dedicated to the Massachusetts Bay Transportation Authority (“MBTA”). This estimate also reflects the impact of two tax cuts effective for calendar year 2001.

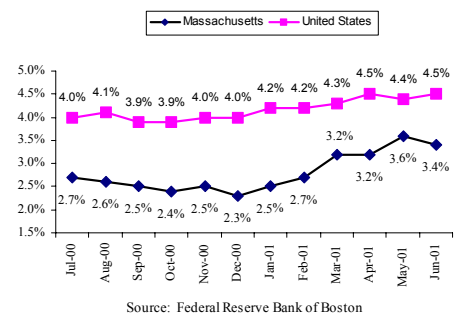
On November 7, 2000 Massachusetts’s voters approved two initiative programs that reduced personal income taxes beyond what was in the fiscal year 2000 budget. A 5.85% rate was effective for tax year 2000 and a 5.8% rate was effective on January 1, 2001. The voters reduced the 2001 rate to 5.6%, the 2002 rate to 5.3% and thereafter to 5%. This rate reduction has an impact of \$135 million in fiscal year 2001 rising to \$1.2 billion when fully implemented in fiscal year 2004. Economic theory suggests that the tax reduction will return to the Commonwealth in the form of increased spending activity and therefore, higher tax receipts. In the short run, it will also force the Commonwealth to live within the means that the citizens have stipulated.

Charitable donations will also be deductible from earned income beginning in tax year 2001. This has an estimated impact of \$80 million in 2001 and \$192 million when fully implemented. The charitable deduction will help stimulate the not-for-profit sector in the Commonwealth.

After accounting for vetoes and overrides in the budget as passed, the Executive Office for Administration and Finance projects the Commonwealth’s total budgeted expenditures and other uses in fiscal year 2001 at \$22.1 billion. This estimate assumes the spending in the Commonwealth will decrease by 1.4% from fiscal year 2000.

The Administration is engaged in an extensive mid-year review of this estimate. The Governor will release her recommended budget for fiscal year 2003 in late January, at which time the fiscal year 2002 forecast may be revised.

Monthly Unemployment Rate July 2000 – June 2001



SIGNIFICANT ACCOMPLISHMENTS

In fiscal year 2001, there were a number of significant accomplishments that demonstrate accountability and sound financial management.

GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the Commonwealth for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2000. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports. This is the eleventh consecutive year that the Commonwealth has received this award.

On both a statutory and GAAP basis, the Commonwealth has maintained a positive fund balance for the tenth consecutive year. The Commonwealth Stabilization Fund balance, sometimes called the “rainy day” fund, has grown to its limit of over \$1.7 billion, representing the Commonwealth’s reserves for future purposes. In addition, the Commonwealth reserved \$579 million in a transitional escrow fund, largely being used for fiscal year 2002 purposes to help soften the economic blow.

The non-tax revenue optimization campaign was very successful in fiscal year 2001. With special authorization in the budget, a task force was comprised of key persons from the Executive Office for Administration and Finance, the Budget Bureau, and the Comptroller’s Office.

The task force provided leadership and sponsored projects by which outside experts were engaged on a contingent fee basis, and departments optimized various sources of non-tax revenue (such as federal reimbursement) by over \$203 million during fiscal year 2001. The initiative is dedicated to optimizing all collection potential within the framework of existing fee structure and program authorizations. The non-tax revenue optimization campaign continues in fiscal year 2002.

RECOMMENDATIONS AND CONCLUSIONS

The Commonwealth has many accomplishments in fiscal year 2001 of which it can be proud. A large number of projects to enhance or re-engineer business processes with new technology have been performed.

The Executive Office of Health and Human Services released a new system, MassCares, designed to provide all its departments and clients information that will enable them to manage services in a holistic manner. In addition, the Commonwealth release it’s new intention based web portal Mass.Gov. providing citizen easy access to information and service when they want it. Quick passage of the Information Technology bond is critical to future releases of these new services as well as other projects that will insure the Commonwealth keep pace with new technologies to enhance service to citizens.

The Office of the Comptroller continued to enhance its MassFinance website at <http://www.massfinance.state.ma.us>, adding the ability of

citizens, employees and vendors of the Commonwealth to access government information they want – when they want it. Commonwealth vendors can now access their remittance information, including scheduled payment and actual payment information, on-line at their convenience. Most recently, MassFinance was enhanced to allow citizens as well as municipal officials the ability to query local aid payments and assessments. In support of the e-Government initiative, the Office of the Comptroller continues to make improvements enhancing this website by bringing more information and services to the public.

Prior to HRCMS, 68% of employees received their pay through direct deposit. Today, over 93% do, reducing banking costs across the Commonwealth. All payroll deductions have also moved to electronic processes. Checks and paper reports have been replaced with electronic payments and data files for all payroll deductions, such as purchases of transit passes, insurance, annuities and payments among the Commonwealth departments. This project eliminated the control risks and inefficiencies associated with the payment payroll expenditures.

Building upon the observations in this letter, a detailed review of these financial statements suggests the need for action to further improve and strengthen state finance law and fiscal practice.

The Commonwealth should define the term “Chief Fiscal Officer” in law. Central to our partnership with CFO’s is ensuring they are empowered to do the job we ask of them. Too often, a department’s Chief Fiscal Officer is not directly accountable to the Chief Executive Officer of the department. Too often, the CFO does not have the proper functions reporting to them, enhancing internal controls. We will work to pass legislation strengthening the CFO’s role.

The legislature should enact early retirement legislation (ERIP). The current economic climate forces governments to reduce expenditures and act more efficiently. The recently enacted budget makes difficult budget reductions throughout state government. Now state managers are challenged to implement those decisions. ERIP is a valuable tool that will reduce forced separations through layoffs and provide managers with a valuable tool to manage more efficiently.

The Commonwealth must constantly monitor and update its systems and controls. We have asked each department, at its highest levels, to assess its risks and target controls to manage those risks efficiently and effectively. Toward this end, the Office of the Comptroller has continued a multi-pronged effort to improve controls throughout the Commonwealth. This effort must continue.

The Commonwealth must ensure that its bills are paid on time. A solid reputation of timely bill payments benefits both our business partners and the taxpayers. During fiscal year 2000, this office began a campaign with the Chief Fiscal Officers in the 154 state departments to improve the percentage of bills paid within 30 days. The timing and focus on bill paying improved the Commonwealth's bill payment track record this year to 84% of all bills paid within 30 days. This effort will continue until we have reached and maintained a 95% level.

The Commonwealth should reduce the number of funds and eliminate funds that have chronic deficits. The Commonwealth currently maintains over 100 governmental funds to record its financial activity. This excess number of funds fragments the Commonwealth's financial picture. Many of these funds have structural imbalances leading to chronic deficits. The effort to reduce the number of funds should continue. A fund should be a self balancing set of accounts where decision makers want to set aside a specific set of revenues to fund a specific set of activities. Nineteen of the 57 budgeted funds are in the environmental fund group. Fifteen of these nineteen funds contribute to accumulated deficits of \$96.7 million in this fund group.

Cash flow requires careful attention. In difficult times, the Commonwealth cashflow requires careful attention. Much of the Commonwealth surplus funds are reserved and held by the Treasurer segregated from pooled cash. At the same time, many of the Commonwealth deficit funds represent an unbudgeted drain on cash flow. The Commonwealth needs to develop a carefully orchestrated plan to insure sufficient cash is available to make timely payments throughout the fiscal year.

The Commonwealth should continue to emphasize optimization of both tax and non-tax revenues. This statewide campaign has generated nearly \$989 million in revenues since fiscal year 1996. The revenue optimization strategy should continue.

I again would like to express my thanks to the many dedicated people within the Office of the State Comptroller. We have had another successful year within the office. I am proud to have all the employees on my team to help tackle these and other difficult issues of the future.

Respectfully submitted,

Martin J. Benison
Comptroller



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“We would like to thank the many dedicated people who helped prepare this report”

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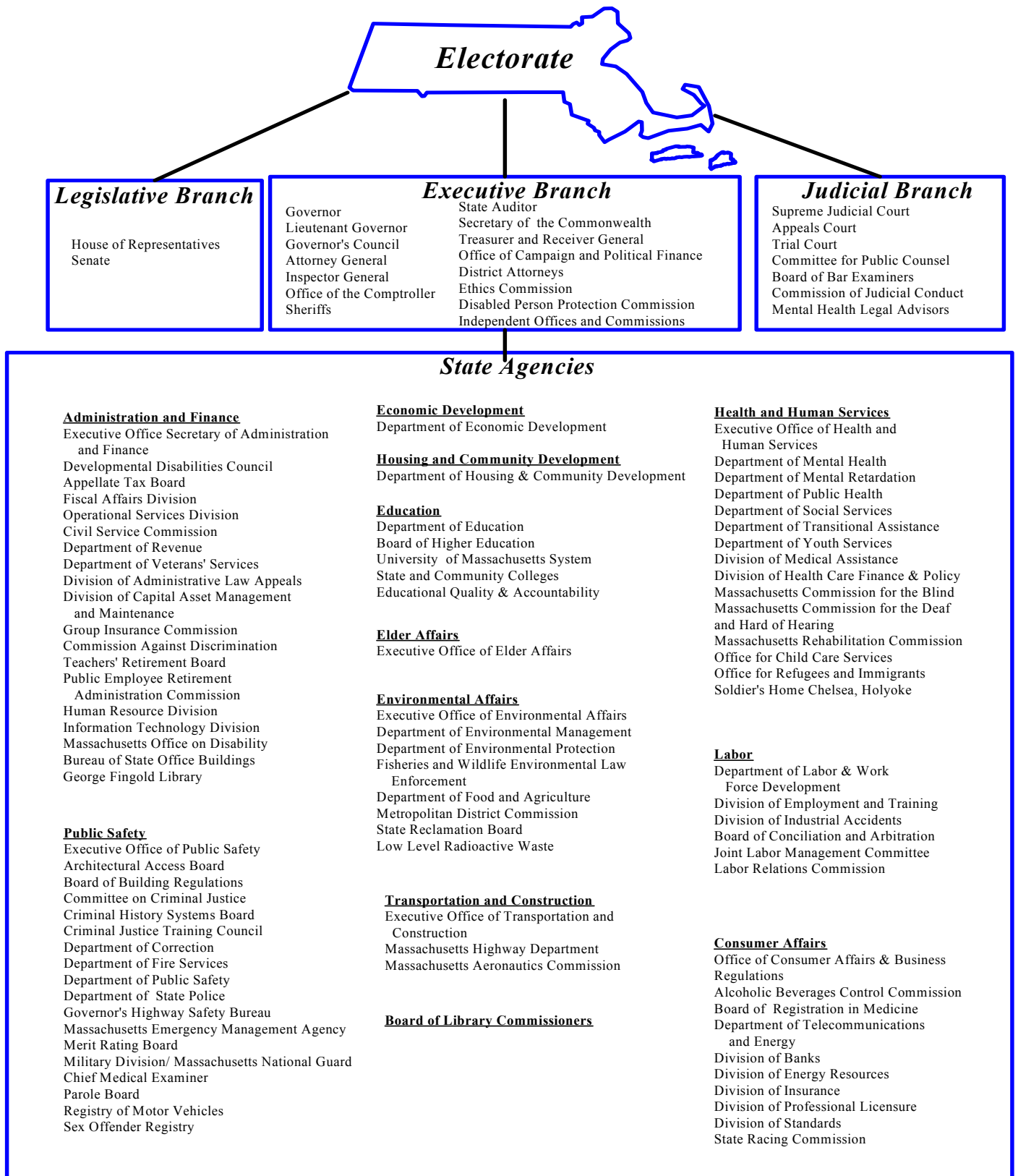
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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Commonwealth of
Massachusetts

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2000

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Thomas A. Howe
President

Jeffrey L. Esser
Executive Director



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FINANCIAL SECTION



Independent Auditor's Report

Management's Discussion and Analysis

Basic Financial Statements

Government-wide Financial Statements

Statement of Net Assets

Statement of Activities

Government Fund Financial Statements

Balance Sheet

Reconciliation of Balance Sheet – Governmental Funds to the Statement of Net Assets

Statement of Revenues, Expenditures, and Changes in Fund Balances

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund

Balances – Governmental Funds to the Statement of Activities

Proprietary Fund Financial Statements

Statement of Net Assets

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Statement of Cash Flows

Fiduciary Fund Financial Statements

Statement of Fiduciary Net Assets

Statement of Changes in Fiduciary net Assets

Component Unit Financial Statements

Statement of Net Assets

Statement of Activities

Index for Notes to Financial Statements

Notes to Financial Statements

Required Supplementary Information Other Than Management's Discussion and Analysis

Budgetary Comparison Schedule – Major Governmental Funds

Commonwealth of Massachusetts

***Required Supplementary Information – Budgetary Reporting
Infrastructure Assets Reported Using the Modified Approach***

Combining and Individual Fund Statements and Schedules – Non Major Funds

Governmental Funds

Balance Sheet – By Fund Type

Statement of Revenues, Expenses and Changes in Fund Balance – By Fund Type

Component Units – Minor Component Units Combining Statements

Authorities

Combining Statement of Net Assets

Combining Statement of Activities

NO AUDIT OPINION
UNAUDITED



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Management's Discussion and Analysis

As management of the Commonwealth, we offer readers of the Commonwealth's financial statements this narrative overview and analysis of the activities of the Commonwealth for the fiscal year ended June 30, 2001. We encourage readers to consider this information in conjunction with the additional information that is furnished in the letter of transmittal, which can be found preceding this narrative, and with the Commonwealth's financial statements, which follow. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Because the Commonwealth is implementing new reporting standards for fiscal 2002, with significant changes in content and structure, much of the information is not comparable to prior years. However, in future years, comparisons will be more meaningful and will go farther in explaining the Commonwealth's financial position and results of operations.

Financial Highlights – Primary Commonwealth Government

Government – Wide Highlights

- ◆ **Net Assets** – The liabilities of the Commonwealth exceeded its assets at the end of fiscal 2001 by \$812 million. Of this amount, “unrestricted net assets” is reported as a negative \$2.8 billion, largely due to large long-term liabilities for school construction grants and claims and judgements of which there are no offsetting assets. The investment in capital assets, net of related debt is also negative due to debt issued for the Central Artery / Tunnel project that will eventually not become the Commonwealth's asset. There are also large restricted net assets for capital projects, unemployment benefits and debt retirement. Unrestricted net assets represent the amount available to be used to meet the Commonwealth's ongoing obligations to its citizens and creditors.
- ◆ **Changes in Net Assets** – The Commonwealth's net assets increased by nearly \$672 million in fiscal 2001. Net assets of governmental activities increased by \$580 million, while net assets of the business – type activities showed an increase of \$91 million. Net expenses of governmental activities before general revenues were over \$15.5 billion, while general revenue from governmental activities was nearly \$16.1 billion.

Fund Highlights

- ◆ **Governmental Funds – Fund Balances** – As of the close of fiscal year 2001, the Commonwealth's governmental funds reported a combined ending fund balance of over \$4.6 billion after reclassing the Central Artery Owner Controlled Insurance Program to a fiduciary activity from 2000. This was an increase of \$1.4 billion from fiscal 2000. Of the \$4.3 billion:

- \$97 million, deficit, net, represents the “unreserved and undesignated fund balances” largely in the highway capital projects fund. The general fund has a positive unreserved fund balance of \$794 million.
- Reserves are placed totaling over \$1.9 billion for continuing appropriations, tax reduction and stabilization within the general fund.
- Of the \$1.9 billion in reserves, \$290 million is reserved for continuing appropriations in the local aid and other governmental funds.
- \$109 million is reserved for retirement of indebtedness (debt defeasance.)
- Finally, nearly \$1.8 billion is reserved for capital projects, largely connected with the Central Artery / Tunnel (CA/T) project.

The unreserved and undesignated deficit balance of nearly \$97 million is roughly 0.3% of the \$30.3 billion of governmental fund expenditures for 2001 before other financing uses.

- ◆ The Commonwealth’s long – term debt position increased by over \$2.3 billion this year (13.2%) also largely due to bond issuance related to the Central Artery / Tunnel project and long-term school construction grants payable to municipalities. The Central Artery / Tunnel Project payable to other component units stands at \$8.3 billion of construction in progress that has not been transferred.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Commonwealth’s basic financial statements. The Commonwealth’s basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information (budgetary schedules) and other supplementary information (combining financial statements) in addition to the basic financial statements themselves.

Government – wide financial statements. The **government-wide financial statements** present the reader with a broad overview of the Commonwealth’s finances in a manner similar to a private sector business. The statements include:

The <i>Statement of Net Assets</i>	This statement presents information on all of the Commonwealth’s assets and liabilities, with the difference between them reported as net assets . Increases or decreases in net assets over time are a useful indicator of whether the financial position of the government is improving or deteriorating.
The <i>Statement of Activities</i>	This statement presents information showing how the Commonwealth’s net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, <i>regardless of when the cash</i>

	<i>flow occurs.</i> Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows of future fiscal years. A prime example of this is accruals for workers compensation, compensated sick and vacation leave and interest costs.
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Both of the statements have separate sections for three different types of Commonwealth programs or activities. These activities are:

<i>Governmental Activities</i>	These activities are fundamentally supported by taxes and federal grants. Most services normally associated with the Commonwealth fall under this category, including education, health and human services, public safety and transportation and construction, among others.
<i>Business – Type Activities</i>	These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The business – type activities for the Commonwealth include the unemployment compensation fund and the schools of higher education.
<i>Discretely Presented Component Units</i>	These are legally separate operations for which the Commonwealth appoints a majority of their governing board. These operations may or may not be fiscally dependent on the Commonwealth. They also <i>do not</i> provide services entirely or almost entirely to the Commonwealth. Examples of these entities include our reported major component units: <ul style="list-style-type: none"> ◆ The Massachusetts Turnpike Authority ◆ The Massachusetts Bay Transportation Authority ◆ The Massachusetts Water Pollution Abatement Trust

As of June 30, 2001, there were 29 component units of the Commonwealth. One component unit, Mass Interaction (formerly known as Massachusetts Corporation for Educational Technology or MCET) is in the process of liquidation. Other examples of component units range from regional transit authorities to the Commonwealth Zoological Corporation. Complete financial statements of the individual component units can be obtained from their respective administrative offices. Addresses and other additional information about the Commonwealth's component units are found in the notes to the financial statements.

The government – wide financial statements can be found immediately following this discussion and analysis.

Fund Financial Statements and Major Component Unit Financial Statements

Funds are groups of major, related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Commonwealth, like other governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. Their financial statements focus on individual parts of the Commonwealth government, reporting its operations in more detail than the government – wide statements. All of the funds of the Commonwealth can be divided into three categories. It is important to realize that these fund categories use different accounting approaches and should be interpreted differently. The three categories of funds are:

<i>Governmental Funds</i>	These funds are used to account for the same functions that are reported as governmental activities in the government – wide financial statements. Governmental fund financial statements focus on the near-term inflows and outflows of spendable resources as well as balances of spendable resources available at the end of the fiscal year. This information is useful in evaluating the Commonwealth’s near – term ability to finance programs and services.
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Because the focus of governmental funds is narrower than that of the government – wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Commonwealth’s near – term financing decisions. Both the governmental funds balance sheet and the related statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*. That reconciliation is presented immediately following the statement of revenues, expenditures and changes in fund balance.

In this section, the **General, Local aid, Lottery, Debt Service, Highway Capital Projects and the Central Artery statewide road and bridge infrastructure funds** are presented as major funds for presentation purposes. In addition, the teacher, principal, superintendent quality endowment fund is presented as a major permanent fund. Each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances. The basic governmental funds financial statements can be found immediately following the government-wide financial statements.

<i>Proprietary Funds</i>	The Commonwealth maintains two different types of proprietary funds. <i>Enterprise funds</i> are used to report the same
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	functions presented as <i>business – type activities</i> in the government – wide financial statements. The Commonwealth uses enterprise funds to account for its unemployment compensation fund . The schools of higher education (presented in the aggregate by University, State College and Community Colleges) are also business – type activities.
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Proprietary funds provide the same type of information as the government – wide financial statements, only in more detail. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements.

<i>Fiduciary Funds</i>	Fiduciary funds are used to account for resources held for the benefit of parties outside the Commonwealth. These funds are not reflected in the government – wide financial statements, because the resources of these funds are not available to support the Commonwealth’s programs and services. These funds use the accrual basis of accounting, which is similar to what is used in the proprietary funds.
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The Commonwealth’s fiduciary funds are the Pension Trust Funds, the External Investment Trust, Private Purpose Funds and Agency funds. The pension trust funds are the transactions and net assets held in trust for the benefit of Commonwealth employees and teachers. Retirement, disability and death benefits are paid out of these funds. The external investment trust accounts for the pooled cash held by the Treasurer – Receiver General for the benefit of various municipalities and other governments of the Commonwealth. Private Purpose funds are trusts where the Commonwealth on behalf of others holds principal that cannot be spent. Agency funds act as conduits for which the Commonwealth is an agent for others. These fund statements can be found following the proprietary fund statements.

<i>Component Unit Financial Statements</i>	These are operations for which the Commonwealth has financial accountability, but are independent of the core operations of the Commonwealth. They operate similar to private – sector businesses. The government – wide financial statements present information for the component units in a single column of the statement of net assets. Some information on the statement of changes in net assets is aggregated for component units as well. The combining statements of net assets, combining statement of changes in net assets and combining condensed statement of cash flows provides detail for each major component unit and the non-major component units in the aggregate. Individual non-major component unit detail, can be found in the combining financial statements described below. These combining statements can be found immediately after the fiduciary fund financial statements.
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Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the date provided in the government – wide and the fund financial statements. The notes to the financial statements can be found immediately following the component units' financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule, which includes reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the governmental fund financial statements.

Other Supplementary Information

The aforementioned combining statements are all presented as other supplementary information. The total columns of these combining financial statements carry to the applicable fund financial statement.

GOVERNMENT – WIDE FINANCIAL ANALYSIS

Net Assets

Net assets may serve over time as a useful indicator of a government's financial position. The Commonwealth's combined net assets (governmental and business-type activities) showed a net deficit of nearly \$812 million at the end of 2001. This was due to the Commonwealth bonding for the Central Artery / Tunnel Project capital costs. Pursuant to the Metropolitan Highway System legislation from 1997, the project will transfer largely to the Massachusetts Turnpike Authority, a component unit of the Commonwealth, upon each segment's completion. In effect, the assets will largely be with the Turnpike Authority, while a large portion of the liabilities will be with the Commonwealth.

\$18.2 billion of the Commonwealth's net assets reflects the Commonwealth's investment in traditional capital assets such as land, buildings, infrastructure and equipment, net of accumulated depreciation. Statement 34 requires the addition of the value of investment in the Commonwealth's infrastructure, including roads, bridges, beaches, dams and other immovable assets to be portrayed for the first time. The net asset balance reflects the net book value of these assets, less. As these assets provide services to citizens, they are not available for future spending unless they are sold. Although the Commonwealth's investment in its capital assets is also reported net of related debt, it must be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

As can plainly be seen below, the bulk of the Commonwealth's net assets lie in its capital assets and long – term liabilities. The Commonwealth's current assets were \$9.7 billion,

while its current liabilities were nearly \$6.0 billion. As unrestricted net assets were in deficit by \$2.8 billion, it must be inferred that whatever current liabilities are not paid out of current assets, including cash, cash equivalents and short-term investments, draws from restricted net assets may be needed to pay for them. Restricted net assets noted above represents resources that are subject to external constraints on resources. The remaining *unrestricted net assets* are negative. Had they been positive, they would then be used to meet the government's ongoing obligations to citizens and creditors. Ostensibly, operational draws turn unrestricted net assets negative. The Commonwealth has huge local aid, capital projects and school construction grants programs that result in obligations, but no assets for the Commonwealth. The school construction grants program (known as school building assistance) alone has a \$5.4 billion liability in total. An additional \$2.3 billion is restricted for unemployment compensation. Another \$1.8 billion are bond proceeds and other funds restricted for ongoing capital projects that will not result in Commonwealth assets. Of the unrestricted net asset deficit balance, \$1.7 billion is invested in the Commonwealth's Stabilization Fund.

Net Assets as of June 30, 2001

(in millions of dollars)

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>
Current and other non-current assets	\$ 8,860	\$ 3,746	\$ 12,606
Capital assets	<u>17,106</u>	<u>1,229</u>	<u>18,335</u>
Total assets	<u>25,966</u>	<u>4,975</u>	<u>30,941</u>
Long-term liabilities	25,042	751	25,793
Other liabilities	<u>5,491</u>	<u>470</u>	<u>5,961</u>
Total liabilities	<u>30,533</u>	<u>1,221</u>	<u>31,754</u>
Net assets:			
Invested in capital assets, net of related debt	(3,698)	900	(2,798)
Restricted	2,130	2,616	4,746
Unrestricted	<u>(2,999)</u>	<u>238</u>	<u>(2,761)</u>
Total net assets	<u>\$ (4,567)</u>	<u>\$ 3,754</u>	<u>\$ (813)</u>

Changes in Net Assets

The Commonwealth's net assets increased by \$580 million or 11.2%. Approximately \$16.1 billion of the Commonwealth's total revenue came from taxes, while \$12.5 billion resulted from programmatic revenues, including charges for services and grants and contributions, the bulk of which is federal aid.

The Commonwealth's expenses cover a wide range of services. The largest expenses were for Medicaid, direct local aid, health and human services and higher, primary and secondary education. In 2001, governmental activities expenses, exceeded program

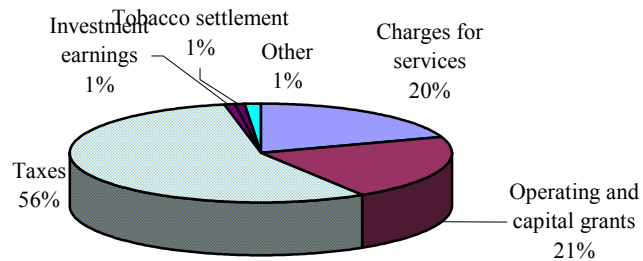
revenues, resulting in the use of \$15.5 billion in general revenues, largely from taxes. However, revenues from business-type activities in 2001 also exceeded expenses by over \$91 million, largely due to nearly \$1.1 billion of transfers in the form of higher education subsidies from governmental activities.

The negative amount of total primary government transfers reflects \$755 million in transfers to subsidize component unit operations. These include debt service subsidies to the Water Pollution Abatement Trust and the Convention Center Authority, as well as transfers of dedicated sales tax revenue to the Massachusetts Bay Transportation Authority.

As depicted in the table and the graphic on the next few pages, governmental revenues largely come from taxes.

Changes in Net Assets as of June 30, 2001 (in millions of dollars)				
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Percentage</u>
Revenues				
Program Revenues	\$ 12,554	\$ 1,177	\$ 13,731	42%
General revenues				
Taxes	17,007	883	17,890	55%
Investment earnings	247	159	406	1%
Tobacco settlement	242	-	242	1%
Other	456	60	516	2%
Total Revenues	30,506	2,279	32,785	100%
Expenses				
Medicaid	5,175	-	5,175	17%
Direct local aid	5,046	-	5,046	16%
Transportation and construction	1,272	-	1,272	4%
Health and human services	4,207	-	4,207	13%
Lottery	3,201	-	3,201	10%
Higher education	-	2,281	2,281	7%
Primary and secondary education	2,041	-	2,041	7%
General Government	839	-	839	3%
Public safety	1,169	-	1,169	4%
Public assistance	991	-	991	3%
Unemployment compensation	-	973	973	3%
Interest	849	-	849	3%
Group health insurance	641	-	641	2%
Other	2,672	-	2,672	9%
Total Expenses	28,103	3,254	31,357	100%
Excess (deficiency) before transfers	2,403	(975)	1,428	
Transfers	(1,822)	1,066	-	
Increase (decrease) in net assets	581	91	1,428	
Net assets - beginning - restated	(5,148)	3,663	5,169	
Net assets - ending	(4,567)	3,754	(813)	

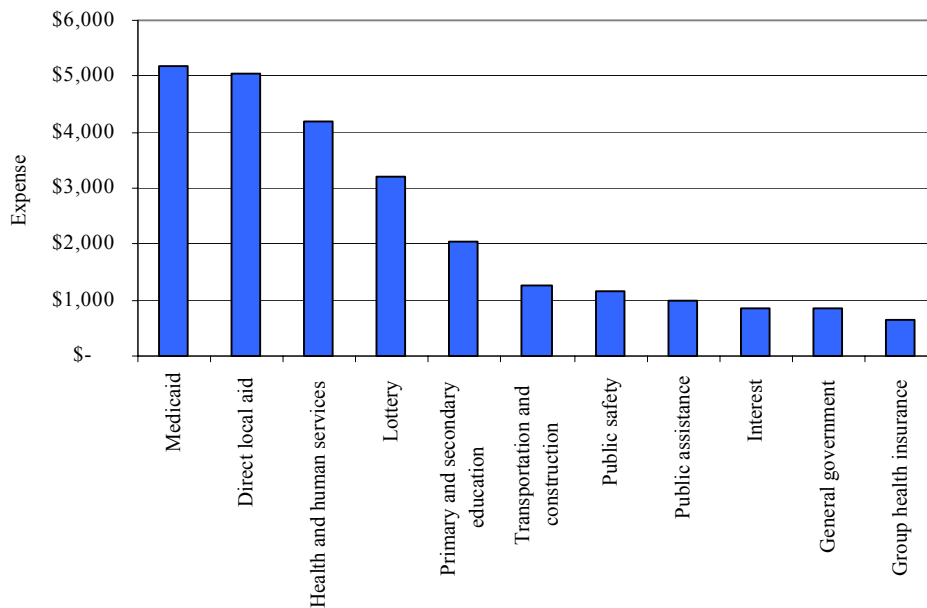
**Revenues - Governmental Activities
Fiscal Year Ending June 30, 2001**



Tax revenues are largely in the form of income taxes. Of the \$17 billion in tax revenue within governmental activities, \$10 billion was from income taxation, \$3.7 billion from sales, \$1.1 billion from corporations, \$661 million from motor fuels and \$1.5 billion from other forms of taxation. The largest operating grants are the federal Medicaid subsidies. The largest capital grants are for transportation, including federal grants for the Central Artery / Tunnel project. Finally, Lottery revenues encompass approximately 2/3 the charges for services.

Nearly 18.4% of all the Commonwealth's governmental activities expenses fund Medicaid. However, it must be noted that over half of the Medicaid expenses are subsidized in the form of federal grants. These subsidies are noted above in the "charges for services" segment. The largest expense that is not subsidized by program revenues is direct local aid to the municipalities of the Commonwealth. According to the Department of Revenue, Division of Local Services, over 58% of these funds are earmarked for public education. Some of these funds are immediately assessed and transferred back to the Commonwealth, for other purposes. The largest assessment that transfers back to the Commonwealth is in the form of operating funds due to the Massachusetts Bay Transportation Authority (MBTA) from municipalities in their district. The MBTA's assessment is recorded as other revenue. Below is a chart that details some of the larger governmental expenses of the Commonwealth.

Selected Expenses - Governmental Activities
Fiscal Year Ending June 30, 2001



Business – Type Activities

The business type activities increased the Commonwealth's net assets by over \$91 million. This resulted from a \$75 million increase in the Commonwealth's Unemployment Compensation Fund and a \$15.7 million in the net assets of the schools of higher education.

FINANCIAL ANALYSIS OF THE COMMONWEALTH'S FUNDS

As noted earlier, the Commonwealth uses fund accounting to ensure and demonstrate compliance with finance – related legal requirements.

Governmental Funds

As of the end of fiscal 2001, the Commonwealth's governmental funds reported combined ending fund balances of \$4.6 billion, an increase of \$1.4 billion from the previous year. However, of the \$4.3 billion, the following amounts are reserved or committed:

	<i>(millions)</i>
Reserved for Continuing Appropriations – to liquidate contracts and purchase orders from the prior fiscal year	\$290
Reserved for tax reduction	34
Reserved for stabilization	1,715
Reserved for Retirement of Indebtedness	109
Reserved for Central Artery Workers' Compensation	729
Reserved for Capital Projects	<u>1,773</u>
Total Reserved Amounts	<u>\$4,649</u>

The amounts reserved for capital projects represent projects that are in process, but have been bonded for in advance. As project costs are expended, the reserve will decrease. The bulk of these funds relate to the Central Artery / Tunnel project. The remaining \$345 million of the governmental fund balance is an unreserved and undesignated deficit.

The general fund is the chief operating fund of the Commonwealth. At the end of the current fiscal year, the unreserved fund balance of the general fund was over \$2.7 billion. Of this amount, over \$1.7 billion was set aside administratively in the Commonwealth's Stabilization and Tax Reduction funds. In fiscal 2002, both funds have been used to help soften the blow of a slowing economy. The administration and the Legislature have wisely taken a balanced approach using \$806 million from these reserves combined with necessary reductions in service levels throughout the Commonwealth. Another \$187 million was also reserved for continuing appropriations to liquidate contracts and purchase orders from the prior fiscal year.

The fund balance of the general fund rose by over \$945 million during fiscal 2001. This is largely due to a sharply lower operating transfers. In fiscal 2000, funds that were in deficit were made whole in a one time operating transfer of over \$2.9 billion.

Proprietary Funds

The Commonwealth's proprietary funds provide the same type of information found in the government – wide financial statements, but in more detail.

As discussed in the business – type activities above, the business type activities increased the Commonwealth's net assets by over \$91 million. This resulted from a \$80 million increase in the Commonwealth's Unemployment Compensation Fund and a \$11 million increase in the net assets of the schools of higher education.

BUDGETARY HIGHLIGHTS

Differences between the original budget and final budget amount to over \$1.6 billion summarized as follows:

- ◆ A supplemental appropriation for transitional assistance and snow and ice removal.
- ◆ An additional supplemental appropriation for various health and human service programs, additional snow and ice removal and transitional assistance, sheriff's costs, underground fuel storage tank removal and heightened energy costs. The supplement also included nearly \$52 million in advance lottery payments to municipalities. And
- ◆ A final supplemental appropriation for a wide – ranging set of governmental programs including grants to community health centers, tropical storms Allison and Floyd emergency management cost reimbursements and \$20 million in funding for the Health Insurance Portability and Accountability Act fund. The act also set aside over \$579 million from revenues in a transitional escrow fund to be used in fiscal 2002.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Commonwealth's investment in capital assets for its governmental and business-type activities as of June 30, 2001, amounts to \$25.6 billion, net of accumulated depreciation of \$7.4 billion, leaving a net book value of \$18.2 billion. With the implementation of GASB 34, 35, 37 and 38 as of July 1, 2001 (fiscal 2002,) infrastructure assets will be reported on the Commonwealth's statement of net assets. Of the investment in capital assets noted above though, \$8.3 billion of this amount includes assets that will transfer to the Turnpike Authority and the Massachusetts Port Authority upon completion of the Central Artery / Tunnel project. An additional \$2 billion has already been transferred to these Authorities of completed portions of the project. Capital assets of the Commonwealth include land, buildings, improvements, equipment, vehicles and infrastructure. Infrastructure includes assets that are normally immovable and of value only to the Commonwealth, such as roads, bridges, beaches, piers and dams. The Central Artery / Tunnel project is recorded as construction in process with segregated disclosure in footnote 6. As aspects of the project are completed, assets are transferred to the Massachusetts Turnpike Authority, a component unit of the Commonwealth, at the cost of those assets. As such, the Commonwealth has recorded an offsetting liability for the portion of the project that has not been transferred to the Turnpike authority.

Before the implementation of infrastructure, the total increase in the Commonwealth's investment in capital assets for 2001 was nearly \$95.7 million. An additional \$2.9 million, net, was transferred from construction in process to fixed assets. Additional information on the Commonwealth's capital assets can be found in the footnotes to the financial statements of this report.

Debt Administration

The Commonwealth issues short-term and long-term debt that is primarily general obligation in form. Debt that is general obligation in nature is backed by the full faith and credit of the Commonwealth and paid from governmental funds. The

Commonwealth's outstanding debt increased by over \$1.6 billion in fiscal 2001, largely for bonds issued related to the Central Artery / Tunnel project. In summary:

- ◆ Over \$1.7 billion in general obligation debt was issued.
- ◆ Over \$600 million in debt issued in anticipation of grants to be received was issued in the final series of grant anticipation note authorizations.
- ◆ Nearly \$965 million in refunding bonds were issued. However, over \$1.5 billion in debt was either defeased or refunded, along with related discounts and premiums. Finally,
- ◆ Nearly \$128 million in bond principal was repaid.

Bond Ratings

As of June 30, 2001, the Commonwealth's bond ratings for its uninsured general obligations were AA-, AA2 and AA- from Fitch, Inc., Moody's Investors Service and Standard & Poor's Ratings Services, respectively.

Limitations on Debt Issuance

The Massachusetts General Laws establish limits on the amount of governmental direct debt outstanding. By statutorily limiting the Commonwealth's ability to issue direct debt, this limit provides a control on annual capital spending. The direct debt limit for fiscal year 2001 was approximately \$11,076,483,000. Outstanding governmental debt subject to the limit at June 30, 2001 was approximately \$10,279,959,000. The limit increases 5% per year.

Additional information on the Commonwealth's short and long-term debt obligations can be found in the footnotes to the financial statements of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

As of June 30, 2001, the unemployment rate in the Commonwealth stood at 3.4%. The rate had been as low as 2.3% during the fiscal year. However, since June 30, 2001, the rate has dramatically risen. The Commonwealth's unemployment rate nearly doubled in a year to 4.2% as of December 2001. We are still well below the national rate of 5.8% though.

Due to the recession and the events of September 11th, tax revenues have dropped sharply in the Commonwealth. The largest drops have come from income taxes, which were staggeringly down 24% in January 2002 from the previous January.

To help deal with this economic downturn, the Commonwealth has drawn \$806 million from its reserves, transitioned nearly \$580 million of aforementioned 2001 revenues into 2002 and implemented an early retirement incentive program. The Governor has also exercised her powers under Section 9C of Chapter 29 of the General Laws, reducing

allotments for programs and services. Schools of higher education have also increased their fees. The 2002 general appropriation act, approved in December 2001, also provides for transfer of 50% of the tobacco settlement funds received in fiscal 2002 to be expended for budgetary health and human service costs.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Commonwealth's finances for all of the Commonwealth's citizens, taxpayers, customers, investors and creditors. This financial report seeks to demonstrate the Commonwealth's accountability for money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Commonwealth of Massachusetts, Office of the State Comptroller, 1 Ashburton Place, 9th Floor, Boston, Massachusetts, 02108. You may also download this report at: <http://www.state.ma.us/osc/Reports/reports.htm>.



Government-wide Financial Statements
Statement of Net Assets
Statement of Activities

Statement of Net Assets

June 30, 2001
(Amounts in thousands)

	Primary Government			
	Governmental Activity	Business Type Activity	Government Wide Governmental Total	Component Units
Assets				
Current assets				
Cash and cash equivalents.....	\$ 5,993,632	\$ 186,409	\$ 6,180,041	\$ 820,131
Short-term investments.....	-	176,293	176,293	190,947
Receivables, net of allowance for uncollectibles:				
Taxes.....	1,517,153	206,820	1,723,973	-
Federal grants and reimbursements receivable.....	1,094,634	24,940	1,119,574	110,771
Loans.....	-	37,236	37,236	113,158
Other receivables.....	233,797	133,312	367,109	109,429
Due from cities and towns.....	1,830	-	1,830	17,443
Due from component units.....	4,865	-	4,865	-
Due from primary government.....	-	-	-	223,987
Inventory.....	13,700	-	13,700	35,344
Other current assets.....	-	22,684	22,684	17,869
Total current assets.....	8,859,611	787,693	9,647,304	1,639,079
Noncurrent assets				
Cash and cash equivalents - restricted.....	109,313	2,545,969	2,655,282	1,500,615
Long-term investments.....	-	342,050	342,050	779,741
Long-term investments -restricted.....	-	449	449	803,124
Accounts receivable, net.....	-	39,889	39,889	8,266
Loans receivable, net.....	-	14,011	14,011	1,930,797
Capital assets , net of accumulated depreciation.....	16,996,737	1,235,238	18,231,975	9,239,212
Other noncurrent assets.....	-	9,942	9,942	115,708
Other noncurrent assets - restricted.....	-	-	-	-
Total noncurrent assets.....	17,106,050	4,187,548	21,293,598	14,377,464
Total assets.....	\$ 25,965,661	\$ 4,975,241	\$ 30,940,902	\$ 16,016,543
Liabilities				
Current liabilities				
Accounts payable and other liabilities.....	\$ 2,817,433	\$ 197,420	\$ 3,014,853	\$ 285,203
Accrued payroll.....	142,335	90,185	232,520	46,412
Compensated absences.....	240,140	82,996	323,136	9,318
Accrued interest payable.....	-	5,408	5,408	192,567
Tax refunds and abatements payable.....	743,135	13,347	756,482	-
Due to component units.....	152,424	-	152,424	-
Due to primary government.....	-	-	-	3,905
Due to federal government.....	17,991	-	17,991	165
Claims and judgements.....	110,400	-	110,400	-
Deferred revenue.....	-	38,887	38,887	39,461
Deposits and unearned revenue.....	18,966	10,631	29,597	-
Capital leases.....	21,901	15,748	37,649	9,925
Bonds, notes payable and other obligations.....	1,102,303	12,071	1,114,374	304,708
School construction grants payable.....	124,035	-	124,035	-
Total current liabilities.....	5,491,063	466,693	5,957,756	891,664

Statement of Net Assets

June 30, 2001
(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activity	Business Type Activity	Government Wide Governmental Total	
Noncurrent liabilities				
Compensated absences.....	154,192	44,425	198,617	865
Due to federal government - grants.....	-	3,433	3,433	-
Claims and judgements.....	29,600	-	29,600	2,867
Deferred revenue.....	-	19,511	19,511	44,852
Capital leases.....	70,407	71,686	142,093	542,448
Bonds, notes payable and other obligations.....	13,300,013	562,184	13,862,197	8,753,913
Due to Component Units - Central Artery / Tunnel Project.....	7,939,071	-	7,939,071	-
Due to Non-Component Units - Central Artery / Tunnel Project.....	354,747	-	354,747	-
School construction grants payable.....	3,183,099	-	3,183,099	-
Other noncurrent liabilities.....	10,501	53,084	63,585	169,331
Total noncurrent liabilities.....	25,041,630	754,322	25,795,952	9,514,276
Total liabilities	30,532,693	1,221,016	31,753,709	10,405,940
Net assets				
Invested in capital assets, net of related debt.....	(3,697,642)	900,387	(2,797,255)	7,826,416
Restricted for:				
Capital projects.....	1,772,839	-	1,772,839	21,225
Unemployment benefits.....	-	2,321,611	2,321,611	-
Retirement of indebtedness.....	109,313	-	109,313	-
Other purposes.....	247,296	294,085	541,381	247,401
Unrestricted.....	(2,998,839)	238,143	(2,760,696)	(2,484,439)
Total net assets.....	<u>\$ (4,567,033)</u>	<u>\$ 3,754,226</u>	<u>\$ (812,807)</u>	<u>\$ 5,610,603</u>

The notes to the financial statements are an integral part of this statement.

Statement of Activities
Fiscal Year Ended June 30, 2001
(Amount in thousands)

Functions/Programs	Expenses	Program Revenues			Primary Government			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Governmental Activities:								
General government.....	\$ 838,596	\$ 135,964	\$ 64,700	\$ -	\$ (637,932)		\$ (637,932)	
Judiciary.....	680,743	65,057	3,438	-	(612,248)		(612,248)	
Direct Local Aid.....	5,046,288	-	-	-	(5,046,288)		(5,046,288)	
Medicaid.....	5,175,063	-	2,657,216	-	(2,517,847)		(2,517,847)	
Group health insurance.....	641,385	72,936	-	-	(568,449)		(568,449)	
Public assistance.....	991,362	-	515,472	-	(475,890)		(475,890)	
Interest (unallocated).....	848,942	-	-	-	(848,942)		(848,942)	
Pension.....	318,293	-	-	-	(318,293)		(318,293)	
Environmental and recreation.....	261,641	85,002	60,670	-	(115,969)		(115,969)	
Communities and development.....	465,910	1,052	310,977	-	(153,881)		(153,881)	
Health and human services.....	4,207,444	882,760	1,538,478	-	(1,786,206)		(1,786,206)	
Transportation and construction.....	1,272,457	5,195	466,530	130,250	(670,483)		(670,483)	
Education.....	2,040,683	3,829	554,705	-	(1,482,149)		(1,482,149)	
Public safety.....	1,168,513	435,933	77,828	-	(654,752)		(654,752)	
Economic development.....	51,099	-	1,376	-	(49,723)		(49,723)	
Elder affairs.....	241,014	411	30,560	-	(210,043)		(210,043)	
Consumer.....	70,952	97,817	1,100	-	27,965		27,965	
Labor.....	228,550	79,265	142,053	-	(7,232)		(7,232)	
Lottery.....	3,200,776	4,134,755	-	-	933,979		933,979	
Depreciation (unallocated).....	353,673	-	-	-	(353,673)		(353,673)	
Total governmental activities	28,103,384	5,999,977	6,425,104	130,250	(15,548,053)	-	(15,548,053)	-
Business-Type Activities:								
Unemployment Compensation.....	972,866	12,696	20,515	-		(939,655)	(939,655)	
Higher Education:								
University of Massachusetts.....	1,325,065	743,941	5,879	20,598		(554,647)	(554,647)	
State colleges.....	438,886	156,352	-	22,820		(259,714)	(259,714)	
Community colleges.....	517,144	178,000	-	15,283		(323,861)	(323,861)	
Total business-type activities:	3,253,961	1,090,989	26,394	58,701	-	(2,077,876)	(2,077,876)	-
Total primary government	\$ 31,357,345	\$ 7,090,966	\$ 6,451,498	\$ 188,951	\$ (15,548,053)	\$ (2,077,876)	\$ (17,625,930)	\$ -
Massachusetts Bay Transportation Authority.....	1,190,898	319,800	-	-				(871,098)
Massachusetts Turnpike Authority.....	301,129	215,254	-	-				(85,875)
Massachusetts Water Pollution Abatement Trust.....	102,162	5,621	10,522	-				(86,019)
Other nonmajor component units.....	411,443	226,022	177,452	-				(7,969)
Total component units.....	\$ 2,005,632	\$ 766,697	\$ 187,974	\$ -	\$ -	\$ -	\$ -	\$ (1,050,961)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Taxes				
Income	\$ 10,033,628	\$ -	\$ 10,033,628	\$ -
Sales taxes	3,744,793	-	3,744,793	-
Corporate taxes	1,077,633	-	1,077,633	-
Motor and special fuel	660,985	-	660,985	-
Other taxes	1,489,921	-	1,489,921	-
Unemployment taxes	-	882,894	882,894	-
Grants and contributions not restricted to specific programs	-	-	-	-
Miscellaneous:				
Investment earnings	246,717	159,477	406,194	239,883
Tobacco Settlements	242,470	-	242,470	-
Pension contribution	27,270	-	27,270	-
Other revenue	427,179	59,544	486,723	964,006
Capital contributions	-	-	-	420,046
Transfers	(1,067,379)	1,067,379	-	-
Transfers to/from component units	(754,753)	-	(754,753)	-
Total general revenues and transfers	16,128,464	2,169,294	18,297,758	1,623,935
Change in net assets	580,410	91,418	671,829	572,973
Net assets - beginning (restated)	(5,147,443)	3,662,808	(1,484,635)	5,037,630
Net assets - ending	\$ (4,567,033)	\$ 3,754,226	\$ (812,807)	\$ 5,610,603



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GOVERNMENTAL FUND FINANCIAL STATEMENTS

Combining Balance Sheet

Governmental Funds
June 30, 2001

(Amounts in thousands)

ASSETS	General	Local Aid	Lotteries	Debt Service	Capital Projects		Teacher, Principal, Superintendent Quality Endowment	Other Governmental Funds	2001
					Highway	Central Artery Statewide Road and Bridge			
Cash and short-term investments.....	\$ 4,245,747	\$ 239,759	\$ 8,370	\$ -	\$ -	\$ -	\$ 74,141	1,425,614	5,993,632
Cash with fiscal agent.....	-	-	-	-	-	-	-	109,313	109,313
Restricted investments.....	-	-	-	-	-	-	-	-	-
Assets held in trust.....	-	-	-	-	-	-	-	-	-
Receivables, net of allowance for uncollectibles:									
Taxes.....	868,638	543,184	-	-	-	-	-	105,331	1,517,153
Due from federal government.....	543,402	-	-	-	-	-	-	551,232	1,094,634
Other receivables.....	119,644	-	8,647	-	-	-	-	96,750	225,041
Due from cities and towns.....	1,273	557	-	-	-	-	-	-	1,830
Due from other funds.....	1,132,256	-	-	-	-	1,681,490	-	588,404	3,402,150
Due from component units.....	3,750	-	-	-	-	-	-	1,115	4,865
Inventory.....	-	-	-	-	-	-	-	13,700	13,700
Total assets.....	<u>\$ 6,914,711</u>	<u>\$ 783,500</u>	<u>\$ 17,017</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,681,490</u>	<u>\$ 74,141</u>	<u>\$ 2,891,459</u>	<u>\$ 12,362,319</u>
LIABILITIES AND FUND BALANCES									
Liabilities:									
Accounts payable.....	\$ 1,149,189	\$ 229,557	\$ 22,451	\$ -	\$ 88,423	\$ 44,117	1,326	743,416	2,278,480
Accrued payroll.....	99,831	19,457	-	-	1,429	-	11	21,607	142,335
Compensated absences.....	177,187	7,148	2,174	-	4,241	-	14	49,376	240,140
Tax refunds and abatements payable.....	445,881	297,254	-	-	-	-	-	-	743,135
Due to other funds.....	2,052,688	-	-	-	755,512	-	-	585,194	3,393,394
Due to component units.....	53,609	21,170	-	-	-	-	-	77,645	152,424
Due from federal government.....	17,991	-	-	-	-	-	-	-	17,991
Deferred revenue.....	161,118	81,816	5,409	-	-	-	-	43,649	291,992
Deposit and unearned revenue.....	-	-	-	-	-	-	-	18,966	18,966
Claims and judgments.....	27,000	-	-	-	-	-	-	-	27,000
Bonds, notes payable and certificates of participation.....	-	-	-	-	-	-	-	402,862	402,862
Other accrued liabilities.....	-	-	-	-	-	-	-	101,800	101,800
Total liabilities.....	<u>4,184,494</u>	<u>656,402</u>	<u>30,034</u>	<u>-</u>	<u>849,605</u>	<u>44,117</u>	<u>1,351</u>	<u>2,044,516</u>	<u>7,810,520</u>
Fund balances (deficits):									
Reserved for continuing appropriations.....	187,391	33,240	-	-	-	-	-	69,399	290,030
Reserved for tax reduction.....	33,565	-	-	-	-	-	-	-	33,565
Reserved for Commonwealth stabilization.....	1,714,990	-	-	-	-	-	-	-	1,714,990
Reserved for retirement of indebtedness.....	-	-	-	-	-	-	-	109,313	109,313
Reserved for capital projects.....	-	-	-	-	-	1,637,373	-	135,466	1,772,839
Reserved for central artery workers' compensation.....	-	-	-	-	-	-	-	728,550	728,550
Unreserved.....	794,270	93,858	(13,018)	-	(849,605)	-	72,790	(195,785)	(97,489)
Fund balances (deficits).....	<u>2,730,217</u>	<u>127,098</u>	<u>(13,018)</u>	<u>-</u>	<u>(849,605)</u>	<u>1,637,373</u>	<u>72,790</u>	<u>846,943</u>	<u>4,551,798</u>
Total liabilities and fund balances.....	<u>\$ 6,914,711</u>	<u>\$ 783,500</u>	<u>\$ 17,017</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,681,490</u>	<u>\$ 74,141</u>	<u>\$ 2,891,459</u>	<u>\$ 12,362,318</u>

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2001

DESCRIPTION		
Total fund balances for governmental funds.....		\$ 4,551,798
Total net assets reported for governmental activities in the statement of net assets is different because		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of		
Land.....	\$ 595,295	
Construction in process.....	30,478	
Depreciable capital assets, net of 2,621,431 accumulated depreciation.....	763,357	
Infrastructure, net of 3,208,149, accumulated depreciation.....	7,313,789	
Central Artery.....	8,293,818	
Total capital assets.....		16,996,737
Certain of the Commonwealth's taxes receivable will eventually be collected but will not be available soon enough to pay for the current period's expenditures, and therefore are reported as deferred revenue in the funds.....		
		291,992
Long-term liabilities applicable to the Commonwealth's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather recognized as an expenditure when due. All liabilities-both current and long-term-are reported in the statement of net assets. Balances at June 30, 2001 are:		
Accrued interest on bonds	(191,666)	
General Obligation Bonds	(13,999,454)	
School construction grants payable	(3,307,134)	
Due to Component Units - Central Artery / Tunnel Project	(8,293,818)	
Accrued interest on school construction grants	(243,640)	
Compensated absences	(154,192)	
Capital leases (including accrued interest)	(94,155)	
Claims and judgments	(113,000)	
Prizes payable	(10,501)	
Total liabilities.....		(26,407,560)
Total net assets of governmental activities		<u>\$ (4,567,033)</u>

Combining Statement Of Revenues, Expenditures And Changes In Fund Balances

Fiscal Year Ended June 30, 2001

(Amounts in thousands)

					Capitol Project				
	General	Local Aid	Lotteries	Debt Service	Projects Highway	Central Artery Statewide Road and Bridge	Teacher, Principal, Superintendent Quality Endowment	Other Governmental Funds	2001
Revenues:									
Taxes.....	\$ 9,616,547	\$ 5,588,473	\$ 2,018	\$ -	\$ -	\$ -	\$ -	\$ 1,595,832	16,802,870
Assessments.....	78,699	-	-	-	-	-	-	512,361	591,060
Federal grants and reimbursements.....	3,098,177	-	-	-	-	-	-	3,282,793	6,380,970
Departmental.....	600,540	969	4,129,346	-	-	-	-	886,658	5,617,513
Deferred compensation contributions.....	-	-	-	-	-	-	-	-	-
Miscellaneous.....	229,725	613	6,798	-	-	124,227	3,862	554,924	920,149
Total revenues.....	\$ 13,623,688	\$ 5,590,055	\$ 4,138,162	\$ -	\$ -	\$ 124,227	\$ 3,862	\$ 6,832,568	\$ 30,312,562
Expenditures:									
Current:									
Legislature.....	57,303	-	-	-	-	-	-	-	57,303
Judiciary.....	595,803	-	-	-	-	-	-	908	596,711
Inspector general.....	2,467	-	-	-	-	-	-	-	2,467
Governor and Lieutenant Governor.....	5,960	-	-	-	-	-	-	-	5,960
Secretary of the Commonwealth.....	43,776	-	-	-	-	-	-	1,047	44,823
Treasurer and Receiver-General.....	124,675	5,564	3,200,776	-	-	-	-	4,069	3,335,084
Auditor of the Commonwealth.....	14,677	734	-	-	-	-	-	201	15,612
Attorney General.....	25,374	975	-	-	-	-	-	11,913	38,262
Ethics Commission.....	771	775	-	-	-	-	-	-	1,546
District Attorney.....	70,067	-	-	-	-	-	-	20,127	90,194
Office of Campaign and Political Finance.....	537	537	-	-	-	-	-	-	1,074
Sheriff's Departments.....	198,365	133	-	-	-	-	-	2,973	201,471
Disabled Persons Protection Commission.....	1,675	-	-	-	-	-	-	25	1,700
Board of Library Commissioners.....	4,395	3,324	-	-	-	-	-	3,013	10,732
Comptroller.....	8,206	-	-	-	-	-	-	-	8,206
Administration and finance.....	903,493	153,689	-	-	-	-	-	150,601	1,207,783
Environmental affairs.....	73,664	26,335	-	-	-	-	-	167,597	267,596
Communities and development.....	96,582	37,451	-	-	-	-	-	331,877	465,910
Health and human services.....	3,505,435	1,556	-	-	-	-	-	2,141,046	5,648,037
Transportation and construction.....	739	565	-	-	-	-	-	161,678	162,982
Education.....	211,872	636,882	-	-	-	-	4,724	645,006	1,498,484
Higher education.....	132,175	-	-	-	-	-	-	6,382	138,557
Public safety.....	487,710	156,376	-	-	-	-	-	313,101	957,187
Economic development.....	14,716	800	-	-	-	-	-	35,583	51,099
Elder affairs.....	175,698	11,421	-	-	-	-	-	53,947	241,066
Consumer affairs.....	44,574	-	-	-	-	-	-	26,807	71,381
Labor.....	32,959	-	-	-	-	-	-	195,963	228,922
Medicaid.....	4,240,835	-	-	-	-	-	-	519,947	4,760,782
Pension.....	109,402	183,581	-	-	-	-	-	25,310	318,293
Deferred compensation.....	-	-	-	-	-	-	-	-	-
Direct local aid.....	27,841	4,938,118	-	-	-	-	-	46,528	5,012,487
Capital outlay:									
Local aid.....	-	-	-	-	-	-	-	33,801	33,801
Capital acquisition and construction.....	-	-	-	-	-	379,339	-	1,821,061	2,200,400
Debt service:									
Debt service.....	-	-	-	1,407,900	365,230	-	-	-	1,773,130
Total expenditures.....	11,211,746	6,158,816	3,200,776	1,407,900	365,230	379,339	4,724	6,720,511	29,449,042
Excess (deficiency) of revenues over (under) expenditures.....	2,411,942	(568,761)	937,386	(1,407,900)	(365,230)	(255,112)	(862)	112,057	863,520

Combining Statement Of Revenues, Expenditures And Changes In Fund Balances

Fiscal Year Ended June 30, 2001

(Amounts in thousands)

	General	Local Aid	Lotteries	Debt Service	Capital Project Projects Highway	Central Artery Statewide Road and Bridge	Teacher, Principal, Superintendent Quality Endowment	Other Governmental Funds	2001
Other financing sources:									
Proceeds of general obligation bonds.....	-	-	-	-	341,525	999,995	-	427,295	1,768,815
Proceeds of grant anticipation notes.....	-	-	-	-	-	-	-	600,009	600,009
Proceeds of refunding bonds.....	-	-	-	998,729	-	-	-	-	998,729
Proceeds of capital leases.....	30,613	-	-	-	-	-	-	-	30,613
Transfers in for debt service	-	-	-	1,407,900	-	-	-	-	1,407,900
Transfers from component units.....	5,707	-	-	-	-	200,000	-	-	205,707
Operating transfers in.....	487,201	861,132	-	-	404,450	692,490	-	1,737,226	4,182,499
Total other financing sources.....	523,521	861,132	-	2,406,629	745,975	1,892,485	-	2,764,530	9,194,272
Other financing uses:									
Payments to refunded bond escrow agent.....	-	-	-	998,729	-	-	-	-	998,729
Operating transfers out.....	548,746	162,050	951,464	-	659,255	-	110	1,800,734	4,122,359
Transfers of appropriations.....	1,059,323	-	-	-	-	-	-	2,350	1,061,673
Transfers of bond proceeds.....	-	-	-	-	7	-	-	65,839	65,846
Transfers out for debt service.....	283,779	79,495	-	-	-	-	-	1,044,626	1,407,900
Transfers to component units.....	98,299	34,837	-	-	-	-	-	827,324	960,460
Total other financing uses.....	1,990,147	276,382	951,464	998,729	659,262	-	110	3,740,873	8,616,967
Total other financing sources and uses.....	(1,466,626)	584,750	(951,464)	1,407,900	86,713	1,892,485	(110)	(976,343)	577,305
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses..	945,316	15,989	(14,078)	-	(278,517)	1,637,373	(972)	(864,286)	1,440,825
Fund balance (deficits) at beginning of year.....	1,784,900	111,109	1,061	-	(571,088)	-	73,762	1,711,229	3,110,973
Fund balance (deficits) at end of year.....	<u>\$ 2,730,216</u>	<u>\$ 127,098</u>	<u>\$ (13,017)</u>	<u>\$ -</u>	<u>\$ (849,605)</u>	<u>\$ 1,637,373</u>	<u>\$ 72,790</u>	<u>\$ 846,943</u>	<u>\$ 4,551,798</u>

See notes to general purpose financial statements.

Reconciliation of the Statement of Revenue, Expenditures And Changes in Fund Balance in Governmental Funds to the Statement of Activities

June, 30 2001

DESCRIPTION

Net change fund balances total governmental funds.....	\$ 1,440,825
The change in net assets reported for governmental activities in the statement of net assets is different because:	
Governmental funds report capital outlays as expenditures. However in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense	
Reduce expenditures for current year capital outlays of.....	1,870,894
Net of reductions in capital assets	(297,835)
Current year depreciation expense.....	(353,673)
Record due to component Unit - Central Artery \ Tunnel - current year CIF	(40,063)
Certain of the Commonwealth's taxes receivable will eventually be collected but will not be available soon enough to pay for the current period's expenditures, and therefore are reported as deferred revenue in the funds.....	
	291,992
Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long term liabilities and does not effect the statement of activities	
Proceeds of General Obligation bonds.....	(1,768,815)
Proceeds of Grant Anticipation Notes	(600,009)
Proceeds of refunding bonds	(998,729)
Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets	
Principal retirement.....	128,426
Payments to bond escrow agent.....	1,622,774
The net revenue of certain activities of certain of internal service funds is reported with governmental activities	
	0
Under the modified accrual basis of accounting used in the governmental funds expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however which is presented on an accrual basis, expenses and liabilities are reported regardless of when financial resources are available	
Accrued interest on bonds	(191,666)
School construction grants payable.....	(531,853)
Compensated absences.....	(7,719)
Lottery instant game grand prizes.....	(4,092)
Claims & judgments.....	21,800
Accrued interest on leases	(1,847)
	(715,377)
Net change net assets total governmental funds.....	<u>\$ 580,410</u>



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Proprietary Funds
Statement of Net Assets - Combining
June 30, 2001

	Unemployment Compensation Trust Fund	University of Massachusetts	State Colleges	Community Colleges	Business Type Activities
Assets					
Current assets					
Cash and cash equivalents.....	\$ -	\$ 67,936	\$ 58,347	\$ 60,126	\$ 186,409
Short-term investments	-	139,386	15,547	21,360	176,293
Receivables, net of allowance for uncollectibles:....					
Taxes	206,820	-	-	-	206,820
Federal grants and reimbursements receivable....	60	22,733	837	1,310	24,940
Loans.....	-	34,857	1,943	436	37,236
Other receivables.....	10,873	100,615	5,877	15,946	133,312
Other current assets.....	-	16,202	2,768	3,714	22,684
Total current assets.....	<u>217,753</u>	<u>381,729</u>	<u>85,319</u>	<u>102,893</u>	<u>787,693</u>
Noncurrent assets					
Cash and cash equivalents - restricted.....	2,171,193	346,535	22,676	5,564	2,545,969
Long-term investments.....	-	323,693	7,772	10,585	342,050
Investments -restricted.....	-	-	449	-	449
Accounts receivables, net.....	-	39,889	-	-	39,889
Loans receivables, Net.....	-	-	12,673	1,337	14,011
Capital assets , net of accumulated depreciation....	-	804,917	204,732	225,589	1,235,238
Other noncurrent assets.....	-	7,159	2,100	684	9,942
Other noncurrent assets - restricted.....	-	-	-	-	-
Total noncurrent assets.....	<u>2,171,193</u>	<u>1,522,193</u>	<u>250,403</u>	<u>243,759</u>	<u>4,187,548</u>
Total assets	<u>\$ 2,388,946</u>	<u>\$ 1,903,922</u>	<u>\$335,721</u>	<u>\$ 346,652</u>	<u>\$4,975,241</u>
Liabilities					
Current Liabilities					
Accounts payable and other liabilities.....	\$ 44,756	\$ 109,745	\$ 15,435	\$ 27,484	\$ 197,420
Accrued payroll.....	-	45,902	19,323	24,960	90,185
Compensated absences.....	-	51,729	15,816	15,452	82,996
Accrued interest payable.....	-	5,151	257	-	5,408
Tax refunds and abatements payable.....	13,347	-	-	-	13,347
Deferred revenue.....	9,232	19,032	6,985	3,638	38,887
Students' deposits and unearned revenues	-	1,862	2,455	6,314	10,631
Pension obligations.....	-	-	-	-	-
Capital leases.....	-	8,835	3,263	3,651	15,748
Bonds, notes payable and other obligations.....	-	10,503	928	640	12,071
Total current liabilities.....	<u>67,335</u>	<u>252,759</u>	<u>64,461</u>	<u>82,138</u>	<u>466,693</u>
Noncurrent liabilities					
Compensated absences.....	-	15,091	9,623	19,710	44,425
Due to federal government - grants.....	-	-	2,024	1,410	3,433
Deferred revenue.....	-	19,336	175	-	19,511
Capital leases.....	-	40,621	16,842	14,223	71,686
Bonds, notes payable and other obligations.....	-	512,498	23,362	26,324	562,184
Other noncurrent liabilities.....	-	38,046	13,134	1,904	53,084
Total noncurrent liabilities.....	<u>-</u>	<u>625,592</u>	<u>65,160</u>	<u>63,570</u>	<u>754,322</u>
Total liabilities	<u>67,335</u>	<u>878,351</u>	<u>129,621</u>	<u>145,709</u>	<u>1,221,016</u>
Net assets					
Invested in capital assets, net of related debt.....	-	543,568	159,645	197,174	900,387
Restricted for:					
Unemployment benefits.....	2,321,611	-	-	-	2,321,611
Other purposes.....	-	262,196	27,014	4,875	294,085
Unrestricted.....	-	219,807	19,442	(1,106)	238,143
Total net assets	<u>\$ 2,321,611</u>	<u>\$ 1,025,571</u>	<u>\$206,101</u>	<u>\$ 200,943</u>	<u>\$3,754,226</u>

The notes to the financial statements are an integral part of this statement.

Proprietary Funds

Statement of Revenues, Expenses and Changes in Net Assets - Combining

June 30, 2001

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Colleges	Community Colleges	Business Type Activities
Operating Revenues:					
Taxes.....	\$ 882,894	\$ -	\$ -	\$ -	882,894
Net Tuition and Fees.....	-	197,678	98,802	77,939	374,419
Federal grants and reimbursements.....	20,515	296,478	11,491	75,914	404,398
Investment Earnings.....	136,996	-	-	-	136,996
Miscellaneous.....	12,696	249,785	46,059	24,147	332,687
Total Operating Revenues.....	\$ 1,053,101	\$ 743,941	\$ 156,352	\$ 178,000	\$ 2,131,395
Operating Expenses:					
Unemployment Compensation.....	972,866	-	-	-	972,866
Instruction.....	-	361,838	152,378	206,931	721,148
Research.....	-	197,097	34	23	197,154
Academic support.....	-	103,066	46,290	59,356	208,712
Student services.....	-	74,321	47,915	64,505	186,741
Scholarships and fellowships.....	-	7,272	6,537	28,685	42,495
Public service.....	-	134,491	2,752	6,936	144,179
Operation and maintenance of plant.....	-	93,188	52,451	44,414	190,053
Institutional support.....	-	116,092	54,806	70,706	241,604
Other operating expenses.....	-	24,538	135	3,153	27,825
Depreciation.....	-	70,525	36,057	18,765	125,347
Auxiliary operations.....	-	123,861	38,163	12,727	174,752
Total Operating Expenses.....	972,866	1,306,289	437,519	516,202	3,232,876
Operating Income (Loss).....	80,235	(562,348)	(281,166)	(338,202)	(1,101,481)
Non Operating Revenues (Expenses), net.....	-	584,366	275,902	332,631	1,192,899
Change in Net Assets.....	80,235	22,018	(5,264)	(5,571)	91,418
Total Net Assets at Beginning of fiscal year (restated).....	2,241,376	1,003,553	211,365	206,514	3,662,808
Total Net Assets - End of fiscal year.....	\$ 2,321,611	\$ 1,025,571	\$ 206,101	\$ 200,943	\$ 3,754,226

See notes to general purpose financial statements.

Proprietary Funds
Statement of Cash Flows - Combining
June 30, 2001
(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Colleges	Community Colleges	Business Type Activities
Cash Flows from Operating Activities:					
Collection of Unemployment Taxes.....	\$ 882,894	\$ -	\$ -	\$ -	\$ 882,894
Tuition, Residence, Dining and Other Student Fees.....	-	-	81,455	60,092	141,547
Research grants and contracts.....	-	-	25,188	70,444	95,632
Payments to Suppliers.....	-	-	(99,040)	(86,458)	(185,499)
Payments to Employees.....	-	-	(194,393)	(205,222)	(399,615)
Payments to Students.....	-	-	(2,561)	(15,396)	(17,957)
Payments to Unemployment Benefits.....	(972,866)	-	-	-	(972,866)
Collection of Loans to Students and Employees.....	-	-	1,631	95	1,726
Income from Contract Services.....	-	-	11,553	-	11,553
Maintenance Costs.....	-	-	(1,296)	-	(1,296)
Auxiliary Enterprise Charges.....	-	-	20,442	412	20,853
Other Receipts.....	40,402	-	18,346	9,253	68,001
Net Cash Provided By (Used By) Operating Activities.....	(49,570)	-	(138,676)	(166,781)	(355,027)
Cash Flows from Non-Capital Financing Activities:					
State Appropriations.....	-	-	163,959	173,147	337,106
Grants and Contracts.....	20,515	-	1,330	-	21,845
Student Organizations Agency Transactions.....	-	-	43	187	230
Assignment of Perkins Loans.....	-	-	-	-	-
Net Cash Provided By (Used By) Non-Capital Financing Activities.....	20,515	-	165,333	173,334	359,182
Cash Flows from Capital and Related Financing Activities:					
Capital Appropriations.....	-	-	12,083	6,331	18,414
Purchases of Capital Assets.....	-	-	(43,151)	(9,685)	(52,836)
Proceeds from the Sale of Capital Assets.....	-	-	-	-	-
Proceeds from Debt Issuance.....	-	-	5,000	5,000	10,000
Other Capital Asset Activity.....	-	-	532	(135)	396
Net Purchases / Sales of Investments Held by Bond Trustee.....	-	-	-	-	-
Contract Revenue.....	-	-	4,248	-	4,248
Principal Paid on Capital Debt and Leases.....	-	-	(6,948)	(2,054)	(9,003)
Interest Paid on Capital Debt and Leases.....	-	-	(12,525)	(799)	(13,324)
Net Cash Provided By (Used By) Capital Financing Activities.....	-	-	(40,761)	(1,342)	(42,103)
Cash Flows from Investing Activities:					
Proceeds from Sales and Maturities of Investments.....	-	-	30,079	29,102	59,181
Purchases of Investments.....	(120,637)	-	(15,737)	(29,850)	(166,224)
Investment Earnings.....	136,996	-	9,145	2,366	148,507
Other.....	12,696	-	(15,694)	(6,406)	(9,404)
Net Cash Provided By (Used By) Investing Activities.....	\$ 29,055	\$ -	\$ 7,794	\$ (4,789)	\$ 32,060
Net Increase (Decrease) in Cash and Cash Equivalents	\$ -	\$ -	\$ (6,311)	\$ 422	\$ (5,889)
Cash and Cash Equivalents at the Beginning of the Fiscal Year.....	-	67,936	64,658	59,704	192,298
Cash and Cash Equivalents at the End of the Fiscal Year.....	\$ -	\$ 67,936	\$ 58,347	\$ 60,126	\$ 186,409
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities					
Operating Income (Loss).....	\$ 80,235	\$ (562,348)	\$(281,166)	\$ (338,202)	\$ (1,101,481)
Adjustments to Reconcile Operating Net Income (loss) to Net Cash Provided (Used) By Operating Activities:					
Depreciation Expense.....	-	-	40,105	11,550,519	11,590,624
Fringe Benefits Paid by the Commonwealth.....	-	-	23,001	28,802,469	28,825,470
Changes in Assets and Liabilities.....	-	-	-	-	-
Cash Held by the State Treasurer.....	-	-	127	(3,208)	(3,081)
Accounts Receivable, Net.....	-	-	(2,146)	13,296	11,150
Prepays, Inventories and Other Assets.....	40,402	-	(395)	796,740	836,747
Loans Receivable and Restricted Cash.....	-	-	73	77,019	77,092
Accounts Payable and Accrued Liabilities.....	-	-	6,392	(133,593)	(127,201)
Accrued Employee Compensation and Benefits.....	(89,972)	-	3,013	7,752,746	7,665,787
Student Deposits and Other Unearned Revenues.....	-	-	96	577,460	577,556
Deferred Revenue.....	-	-	645	693,372	694,017
Funds Held by Others.....	-	-	-	13,702	13,702
Other Liabilities.....	-	-	106	195,261	195,367
Net Cash Provided By (Used By) Operating Activities.....	\$ (49,570)	\$ -	\$ 30,913	\$ 38,785,264	\$ 38,766,607
Operating Activities per above	\$ (49,570)	\$ -	\$(138,676)	\$ (166,781)	\$ (355,027)



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Fiduciary Fund Types
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2001
(Amounts in thousands)

	Pension Trust Funds	External Investment Trust Funds	Owner Controlled Insurance Program	Private Purpose Funds	Agency Funds
ASSETS					
Cash and short-term investments.....	\$ 879,346	\$ 2,890,198	\$ -	\$ 5,834	\$ 267,054
Investments at fair value.....	29,279,535	-	176,147	-	-
Investments of deferred compensation plan.....	-	-	-	-	3,074,756
Annuity contracts.....	-	-	-	-	1,409,121
Assets held in trust.....	-	-	-	-	2,299,419
Receivables, net of allowance for uncollectibles:					
Taxes.....	-	-	-	-	1,191
Due from federal government.....	-	-	-	-	-
Loans.....	-	-	-	-	-
Other receivables.....	355,745	3,511	54,489	-	90,235
Other assets.....	21,456	-	-	-	-
Total assets.....	<u>\$ 30,536,082</u>	<u>\$ 2,893,709</u>	<u>\$ 230,636</u>	<u>\$ 5,834</u>	<u>\$ 7,141,776</u>
LIABILITIES					
Liabilities:					
Accounts payable.....	\$ 1,032,735	\$ 1,085	\$ -	\$ -	\$ 32,103
Accrued payroll.....	-	-	-	-	-
Compensated absences.....	-	-	-	-	-
Tax refunds and abatements payable.....	-	-	-	-	-
Due to cities and towns.....	-	-	-	-	32,829
Due to other funds.....	-	-	-	-	-
Due to component units.....	-	-	-	-	-
Deferred revenue.....	-	-	-	-	-
Prizes payable.....	-	-	-	-	1,409,121
Deferred compensation liability.....	-	-	-	-	3,112,410
Agency liabilities.....	-	-	-	-	2,555,313
Other accrued liabilities.....	-	2,301	83,400	-	-
Total liabilities.....	<u>1,032,735</u>	<u>3,386</u>	<u>83,400</u>	<u>-</u>	<u>7,141,776</u>
Net assets:					
Restricted for employees' pension benefits.....	29,503,347	-	-	-	-
Restricted for unemployment benefits.....	-	2,890,323	-	-	-
Restricted for nonexpendable trusts.....	-	-	-	5,834	-
Restricted for worker's compensation	-	-	147,236	-	-
Unrestricted.....	-	-	-	-	-
Total net assets.....	<u>\$ 29,503,347</u>	<u>\$ 2,890,323</u>	<u>\$ 147,236</u>	<u>\$ 5,834</u>	<u>\$ -</u>

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Fiscal Year Ended June 30, 2001
(Amounts in thousands)

	Pension Trust Funds	External Investment Trust Funds	Owner Controlled Insurance Program	Private Purpose Funds
Additions:				
Contribution:				
Premiums.....	\$ -	\$ -	\$ 54,489	\$ -
Employer contributions.....	979,414	-	-	-
Employee contributions.....	774,109	-	-	-
Proceeds from sale of units.....	-	6,297,291	-	-
Units issued - reinvestment of distributions.....	-	119,596	-	-
Total contributions.....	\$ 1,753,523	6,416,887	54,489	-
Net investment income (loss) :				
Net appreciation (depreciation) in fair value	(3,098,005)	-	-	-
Interest.....	579,065	140,215	12,099	-
Dividends.....	227,599	-	-	-
Real estate operating income, net.....	132,158	-	-	-
Alternative investments.....	5,654	-	-	-
Other.....	8,900	-	-	-
Total investment income (loss).....	-	140,215	12,099	-
Less: investment expense.....	74,754	4,046	-	-
Net investment income (loss)	(74,754)	136,169	12,099	-
Total additions.....	\$ 1,678,769	\$ 6,553,056	\$ 12,099	\$ -
Deductions:				
Administration.....	12,601	-	-	-
Retirement benefits and refunds.....	1,597,644	-	-	-
Claims and Judgements.....	-	-	88,913	-
Cost of units redeemed.....	-	5,927,037	-	-
Distribution to unit holders.....	-	136,170	-	-
Total deductions.....	1,610,245	6,063,207	88,913	-
Net increase (decrease).....	\$ 68,524	\$ 489,849	\$ (22,325)	\$ -
Net assets - Beginning.....	31,579,452	2,400,474	169,561	5,834
Net assets - Ending.....	\$ 31,647,976	\$ 2,890,323	\$ 147,236	\$ 5,834

**Component Units
Statement of Net Assets - Combining**

June 30, 2001
(Amounts in thousands)

	Massachusetts Bay Transportation Authority	Massachusetts Turnpike Authority	Massachusetts Water Pollution Abatement Trust	Non-Major Component Units Total	Total
Assets					
Current assets:					
Cash and cash equivalents.....	\$ 181,407	\$ 13,802	\$ 241,524	\$ 383,398	\$ 820,131
Short-term investments.....	-	-	97,158	93,789	190,947
Receivables, net of allowance for uncollectibles:					
Federal grants and reimbursement receivable.....	-	-	91,446	19,325	110,771
Loans.....	-	-	89,871	23,287	113,158
Other receivables.....	15,297	19,974	46,109	28,049	109,429
Due from cities and towns.....	-	-	-	17,443	17,443
Due from primary government.....	100,999	-	23,150	99,838	223,987
Inventory.....	34,871	-	-	473	35,344
Other current assets.....	4,791	1,806	-	11,272	17,869
Total current assets.....	<u>337,365</u>	<u>35,582</u>	<u>589,258</u>	<u>676,874</u>	<u>1,639,079</u>
Noncurrent assets:					
Cash and cash equivalents - restricted.....	1,110,082	-	-	390,533	1,500,615
Long-Term investments.....	-	-	735,848	43,893	779,741
Restricted Investments.....	-	790,069	-	13,055	803,124
Accounts receivables, net.....	-	-	-	8,266	8,266
Loans receivables, net.....	-	-	1,644,786	286,011	1,930,797
Capital assets, net of accumulated depreciation.....	6,295,220	2,203,454	-	740,538	9,239,212
Other noncurrent assets.....	93,853	5,975	3,570	12,310	115,708
Total noncurrent assets.....	<u>7,499,155</u>	<u>2,999,498</u>	<u>2,384,204</u>	<u>1,494,607</u>	<u>14,377,464</u>
Total assets.....	<u>\$ 7,836,520</u>	<u>\$3,035,080</u>	<u>\$ 2,973,462</u>	<u>\$ 2,171,481</u>	<u>\$16,016,543</u>
LIABILITIES					
Current liabilities:					
Accounts payable and other liabilities.....	\$ 139,919	\$ 56,907	\$ 374	\$ 88,003	\$ 285,203
Accrued payroll.....	44,392	593	-	1,427	46,412
Compensated absences.....	-	8,440	-	878	9,318
Accrued interest payable.....	79,751	61,410	36,879	14,527	192,567
Due to primary government.....	-	-	-	3,905	3,905
Due to federal government.....	-	-	-	165	165
Deferred revenue.....	-	23,886	1,515	14,060	39,461
Capital leases.....	9,378	-	-	547	9,925
Bonds, notes payable and other obligations.....	116,954	-	65,935	121,819	304,708
Total current liabilities.....	<u>390,394</u>	<u>151,236</u>	<u>104,703</u>	<u>245,331</u>	<u>891,664</u>
Noncurrent liabilities:					
Compensated absences.....	-	-	-	865	865
Claims and judgments.....	-	-	-	2,867	2,867
Deferred revenue.....	-	-	-	44,852	44,852
Capital leases.....	539,352	-	-	3,096	542,448
Bonds, notes payable and other obligations.....	3,885,163	2,430,994	1,611,775	825,981	8,753,913
Other noncurrent liabilities.....	32,401	-	95,514	41,416	169,331
Total noncurrent liabilities.....	<u>4,456,916</u>	<u>2,430,994</u>	<u>1,707,289</u>	<u>919,077</u>	<u>9,514,276</u>
Total liabilities.....	<u>4,847,310</u>	<u>2,582,230</u>	<u>1,811,992</u>	<u>1,164,408</u>	<u>10,405,940</u>
NET ASSETS					
Invested in capital assets, net of related debt.....	6,295,220	-	1,010,737	520,459	7,826,416
Restricted for:					
Capital projects.....	-	-	-	21,225	21,225
Other purposes.....	-	-	-	247,401	247,401
Unrestricted.....	(3,306,010)	452,850	150,733	217,988	(2,484,439)
Total net assets.....	<u>\$ 2,989,210</u>	<u>\$ 452,850</u>	<u>\$ 1,161,470</u>	<u>\$ 1,007,073</u>	<u>\$ 5,610,603</u>

Component Units
Statement of Revenues, Expenses and Changes in Net Assets
Fiscal Year Ending June 30, 2001
(Amounts in thousands)

	Massachusetts Bay Transportation Authority	Massachusetts Turnpike Authority	Massachusetts Water Pollution Abatement Trust	Non-Major Component Units Total	Total
Operating revenues and expenses:					
Operating revenues:					
Charges for services.....	\$ 280,983	\$ 186,219	\$ 5,621	\$ 181,680	\$ 654,503
Other.....	38,817	29,035	-	44,342	112,194
Total Operating Revenues.....	319,800	215,254	5,621	226,022	766,697
Operating expenses:					
Cost of services	414,900	93,615	14,434	275,602	798,551
Administration costs.....	348,652	26,851	3,780	70,686	449,969
Depreciation.....	201,932	53,201	-	39,079	294,212
Total Operating Expenses.....	965,484	173,667	18,214	385,367	1,542,732
Operating Income (loss).....	(645,684)	41,587	(12,593)	(159,345)	(776,035)
Nonoperating revenues (expenses):					
Operating grants.....	-	-	10,522	177,452	187,974
Interest income.....	41,255	54,257	114,593	29,778	239,883
Interest expense.....	(225,414)	(127,462)	(83,948)	(26,076)	(462,900)
Other nonoperating revenue (expense).....	812,086	140,598	-	11,322	964,006
Nonoperating Revenues (expenses), net.....	627,927	67,393	41,167	192,476	928,963
Income (loss) before contributions and operating transfer.....	(17,757)	108,980	28,574	33,131	152,928
Capital contributions.....	136,834	-	107,481	178,524	422,839
Transfer to other funds.....	-	-	-	927	927
Net income (loss) for the year.....	119,077	108,980	136,055	212,581	576,693
Depreciation on assets acquired with capital grants.....	-	-	-	(3,720)	(3,720)
Change in Net Assets.....	119,077	108,980	136,055	208,862	572,974
Net Assets - Beginning of Year.....	2,870,133	343,870	1,025,415	798,212	5,037,630
Net Assets - End of Year.....	\$ 2,989,210	\$ 452,850	\$ 1,161,470	\$ 1,007,073	\$ 5,610,603



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Table of Contents

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	64
2. BUDGETARY CONTROL	77
3. DEPOSITS AND INVESTMENTS	79
4. RECEIVABLES-	83
5. RECEIVABLES AND PAYABLES BETWEEN FUNDS AND COMPONENT UNITS	84
6. FIXED ASSETS	86
7. SHORT-TERM FINANCING AND CREDIT AGREEMENTS	88
8. LONG-TERM DEBT	90
9. INDIVIDUAL FUND DEFICITS	99
10. RETIREMENT SYSTEMS	100
11. DEFERRED COMPENSATION PLAN	106
12. LEASES	106
13. COMMITMENTS	108
14. CONTINGENCIES	111
15. SUBSEQUENT EVENTS	115

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Commonwealth of Massachusetts (the Commonwealth) have been prepared in accordance with accounting principles generally accepted in the United States of America, (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant Commonwealth accounting policies are described below.

A. Reporting Entity

The Commonwealth is comprised of three branches: the Executive Branch, with the Governor as the chief executive officer; the Legislative Branch, consisting of a Senate of 40 members and a House of Representatives of 160 members; and the Judicial Branch made up of the Supreme Judicial Court, the Appeals Court and the Trial Court. In addition, the Legislature has established 56 independent authorities and agencies. Below the level of state government are county governments and 351 cities and towns exercising the functions of local governments. The cities and towns of the Commonwealth are also organized into 14 counties, but county government has been abolished in seven of those counties in recent years.

For financial reporting purposes, the Commonwealth has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The Commonwealth has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Commonwealth is such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. As required by GAAP, these financial statements present the Commonwealth of Massachusetts (the primary government) and its component units. The Commonwealth has included 35 entities as component units in the reporting entity because of the significance of their operational and/or financial relationships with the Commonwealth.

Component Units and Details of Departments and Funds that are Separately Audited

Blended Component Units, Departments and Funds that are Separately Audited – Blended component units are entities that are legally separate from the Commonwealth, but are so related to the Commonwealth, that they are, in substance, the same as the Commonwealth or entities providing services entirely or almost entirely to the Commonwealth. The net assets and results of operations of the following entities are presented as part of the Commonwealth's fiduciary fund type operations:

- **The Pension Reserves Investment Trust Fund, (PRIT)** is the investment portfolio for the pension net assets of the Commonwealth and as such, is presented as a blended component unit. PRIT is managed by the Pension Reserves Investment Management (PRIM) Board.
- **The Massachusetts Municipal Depository Trust, (MMDT)** is an investment pool of the Commonwealth and its political subdivisions. A firm other than Deloitte & Touche, LLP, audited PRIT and MMDT.

The following departments are separately audited from the Commonwealth but are not legally separate from the Commonwealth:

- **The Massachusetts State Lottery Commission** runs the Commonwealth's lottery. The net assets of the Commission and results of operations are presented as part of the Commonwealth's governmental activities. A firm other than Deloitte & Touche, LLP, audited the Commission.

The Institutions of Higher Education of the Commonwealth has operations and net assets that are presented as part of the Commonwealth's business – type activities. These systems include:

- **The University of Massachusetts System** including its discretely presented component units, the University of Massachusetts Building Authority, the University of Massachusetts Foundation, Inc., the Worcester City Campus Corporation (doing business as Umass Health System.) The Worcester City Campus Corporation includes a not-for-profit subsidiary, the Worcester Foundation for Biomedical Research, Inc. Finally, the University System includes the University of Massachusetts Dartmouth Foundation, Inc.
- **The State and Community College System** includes 9 State and 15 Community Colleges located throughout the Commonwealth. The following are Community Colleges:
 - Berkshire Community College
 - Bunker Hill Community College
 - Bristol Community College
 - Cape Cod Community College
 - Greenfield Community College
 - Holyoke Community College
 - Massasoit Community College
 - Massachusetts Bay Community College
 - Middlesex Community College
 - Mount Wachusett Community College
 - Northern Essex Community College
 - North Shore Community College
 - Quinsigamond Community College
 - Roxbury Community College
 - Springfield Technical Community College

The following are State Colleges:

- Bridgewater State College
- Fitchburg State College
- Framingham State College
- Massachusetts College of Art
- Massachusetts Maritime Academy
- Massachusetts College of Liberal Arts
- Salem State College
- Worcester State College
- Westfield State College

Within the State and Community College system is a blended component unit, **The Massachusetts State College Building Authority.**

All Institutions of Higher Education are audited by a firm other than Deloitte & Touche, LLP. One institution, did not have an audit performed.

Discretely Presented Component Units that are Separately Audited – Discrete component units are entities which are legally separate, but are financial accountable to the Commonwealth, or whose relationships with the Commonwealth are such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. The Component Units column of the combined financial statements include the financial data of the following entities:

Major Component Unit Authorities:

- **The Massachusetts Bay Transportation Authority, (MBTA)** provides mass transit facilities within the Greater Boston metropolitan area, comprising 78 cities and towns.
- **The Massachusetts Turnpike Authority, (MTA)** operates the Massachusetts Turnpike and the Boston harbor tunnel crossings that are part of the Metropolitan Highway System.
- **The Massachusetts Water Pollution Abatement Trust, (MWPAT)** provides a combination of federal and Commonwealth funds for water and sewer projects around the Commonwealth as operator of the Commonwealth's state revolving fund.

Minor Component Unit Authorities

- **The Massachusetts Convention Center Authority (MCCA)**
- **The Massachusetts Development Finance Agency (MassDevelopment)**
- **The Massachusetts Technology Park Corporation (MTPC)**
- **The Massachusetts Community Development Finance Corporation (MCDFC)**
- **Commonwealth Corporation (CBWL)** (the Corporation for Business, Work and Learning)
- **The Massachusetts International Trade Council, Inc (MITC)**
- **The Community Economic Development Assistance Corporation (CEDAC)**
- **Massachusetts Interaction (MAI)** (formerly Massachusetts Corporation for Educational Telecommunications)
- **The Massachusetts Housing Partnership (MHP)**
- **Route 3 North Transportation Improvements Association (R3N)**
- **The Commonwealth Zoological Corporation** (doing business as Zoo New England)
- **The Regional Transit Authorities (15 separate entities)** including:
 - Berkshire Regional Transit Authority
 - Brockton Area Transit Authority
 - Cape Ann Transit Authority
 - Cape Cod Regional Transit Authority
 - Franklin Regional Transit Authority
 - Greater Attleboro / Taunton Regional Authority
 - Greenfield-Montague Transportation Area
 - Lowell Regional Transit Authority
 - Martha's Vineyard Transit Authority
 - Merrimack Valley Regional Transit Authority
 - Montachusett Regional Transit Authority
 - Nantucket Regional Transit Authority
 - Pioneer Valley Regional Transit Authority
 - Southeastern Regional Transit Authority
 - Worcester Regional Transit Authority

Of the Component Unit Authorities, all except for MAI and MTPC were audited by a firm other than Deloitte & Touche, LLP.

Related Organizations

The following are “related organizations” under GASB Statement No. 14, “*The Financial Reporting Entity*”: Massachusetts Port Authority, Massachusetts Housing Finance Agency, Massachusetts Health and Educational Facilities Authority and Massachusetts Technology Development Corporation. The Commonwealth is responsible for appointing a voting majority of the members of each entity’s board, but the Commonwealth’s accountability does not extend beyond the appointments.

Availability of Financial Statements

The Commonwealth’s Component Units, Departments and Funds that are separately audited issue their own financial statements. These statements may be obtained by directly contacting the various entities. To obtain their phone numbers, you may contact the Office of the State Comptroller, Financial Reporting and Analysis Bureau, at (617)-973-2660.

Operating vs. Non-Operating Classifications of Primary Funds and the Business Type Activity

Revenues and expenses of proprietary funds are classified as operating or nonoperating and are subclassified by object. Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as nonoperating.

B. Government – Wide and Fund Financial Statements

The Statement of Net Assets and the Statement of Activities report information on all non-fiduciary activities of the primary government, (the Commonwealth,) and its component units. Primary government activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The **Statement of Net Assets** presents the reporting entity’s non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.
- **Unrestricted net assets** consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. They often have resources that are imposed by management, but can be removed or modified.

The **Statement of Activities** demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenue.

Fund Financial Statements –

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements, with non-major funds being combined into a single column.

The Commonwealth reports its financial position and results of operations in funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

C. Measurement Focus, Basis of Accounting and Financial Statements Presentation

The government-wide statements are reported using the economic resources management focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

As allowed by GASB statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting, the Commonwealth's proprietary funds follow all GASB pronouncements and those Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

The Commonwealth has established the following fund categories (further divided by fund types), and account groups:

Governmental Funds – account for the general governmental activities of the Commonwealth. Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become *susceptible to accrual*; generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services. Revenues from other financing sources are recognized when received. Expenditures are recorded in the period in which the related fund liability is incurred. Principal and interest on general long-term obligations are recorded as fund liabilities when due.

Financial Statement Presentation

The Commonwealth presents the following major governmental funds:

The General Fund is the primary operating fund of the Commonwealth. It is used to account for all governmental transactions, except those required to be accounted for in another fund.

The Local Aid Fund accounts for the lottery operating surplus and forty percent of income and corporate taxes, thirty two percent of sales tax and a portion of other taxes which have been earmarked for distribution to municipalities or used to finance programs that benefit local communities and a major portion of the court systems.

The Lottery Funds account for the operations of the State and Arts Lotteries, which primarily finance the aforementioned local aid fund.

The Debt Service Fund accounts for the accumulation of resources, principally transfers from other funds, for the payment of long-term debt principal and interest.

Capital Projects – Highway accounts for the proceeds of bonds sold to finance construction of state highways and to fund the Commonwealth's share of Federally sponsored highway construction.

The Central Artery and Statewide Road and Bridge Fund accounts for the construction of a portion of the Central Artery / Tunnel project financed from fiscal 2001 forward, as well as various other statewide road and bridge projects. These expenditures are financed from bond proceeds, certain revenues from Registry of Motor Vehicles fees (net of debt service expenditures) and payments from authorities.

Additionally, the Commonwealth reports the following fund types:

Governmental Fund Types:

Special Revenue Funds account for specific revenue sources that have been aggregated according to Commonwealth Finance Law to support specific governmental activities.

Capital Projects Funds account for the acquisition or construction of major Commonwealth capital facilities financed by primarily from bonds and federal reimbursements.

Permanent Funds report resources that are legally restricted to the extent that only earnings and not principal, may be used for purposes that benefit the government or its citizens.

Internal Service Funds report the financing of services by one department or agency to other departments or agencies or to other governmental units.

Proprietary Fund Types:

The Unemployment Compensation Fund reports the taxes collected from employers and held by the United States Treasury in the Federal Unemployment Trust Fund, from which funds are drawn for the payment of benefits to the unemployed.

The College and University Information is presented here, aggregated by the University's activity, the State Colleges activity and the Community College's activity.

Fiduciary Fund Types:

Pension (and other employee benefits) trust funds report resources that are required to be held in trust for the members and beneficiaries of the Commonwealth's pension plans. These include the State Employees' and Teachers' Retirement Systems and assets held in trust for the cities and towns.

Private Purpose Trust Funds report resources of all other arrangements held by the Commonwealth in a trustee capacity, or as an agent for individuals, private organizations, other governmental units, and/or other funds in which principal and income are available to be spent for a designated purpose

The **External Investment Trust Fund** accounts for the portion of pooled cash held under the custodianship of the Commonwealth for the benefit of cities, towns and other political subdivisions of the Commonwealth.

Agency Funds account for assets the Commonwealth holds on behalf of others. Agency Funds are custodial in nature and do not involve measurement of operations.

Statutory (budgetary) Accounting – The Commonwealth's books and records and other official reports are maintained on the basis of accounting used in the preparation of the Commonwealth's legally adopted annual budget (statutory basis). The statutory basis emphasizes accountability and the budgetary control of appropriations, but is not intended to present the Commonwealth's financial condition and results of operations in conformity with GAAP.

Under the statutory basis, revenues are generally recognized when the cash deposit is received. However, revenues receivable for federal grants and reimbursements are recognized when related expenditures are incurred. Amounts due from certain political subdivisions of the Commonwealth are recognized when considered measurable and available at year-end. Deeds excise taxes are recognized at the time of collection by the counties and the Commonwealth.

Statutory expenditures generally are recorded when the related cash disbursement occurs. At year-end, payroll is accrued and payables are recognized, to the extent of approved encumbrances, for goods or services received by June 30. Costs incurred under the federally sponsored Medicaid program, amounts required to settle claims and judgments against the Commonwealth, and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment. All encumbrances that do not relate to specific payables lapse at year-end.

The Commonwealth has separately published its audited "Statutory Basis Financial Report" for the fiscal year June 30, 2001, dated October 24, 2001.

Fiscal Year- Ends

All funds and discretely presented component units are reported using fiscal years, which end on June 30, except for the Massachusetts Turnpike Authority, and the Commonwealth of Massachusetts Deferred Compensation Plan, both of which utilize a December 31 year end.

D. Assets, Liabilities and Net Assets / Fund Balance

Cash and Short-Term Investments and Investments -

The Commonwealth follows the practice of pooling cash and cash equivalents for some of its Governmental and Fiduciary Funds. Cash equivalents consist of short-term investments with an original maturity of three months or less and are stated at cost or amortized cost, which approximates fair value. Interest earned on pooled cash is allocated to the General Fund, Private Purpose Trust Funds and to certain Special Revenue Funds when so directed by law. All Commonwealth, Component Unit, Pension and Deferred Compensation Plan investments are carried at fair value determined by current market rates and quotations.

The Pension (and other employee benefits) Trust Funds, with investments totaling approximately \$29,279,535,000, at fair value, are permitted to make investments in equity securities, fixed income securities, real estate and other alternative investments. For investments traded in an active market, the fair value of the investment will be its market price. The Pension (and other employee benefit) Trust Funds include investments in real estate, venture capital funds, real estate funds, limited partnerships, futures pools, international hedge pools, commodities pools, balanced pools, leveraged buyouts, private placements and other alternative investments. The structure, risk profile, return potential and marketability differ from traditional equity and fixed income investments. Concentrations of credit risk exist if a number of companies in which the Fund has invested, are engaged in similar activities and have similar economic characteristics that could cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. To mitigate the exposure to concentrations of risk, the Pension (and other employee benefit) Trust Funds invest in a variety of industries located in diverse geographic areas. As of June 30, 2001, the estimated fair value, determined by management with input from the investment managers, of these real estate and alternative investments was approximately \$3,423,332,000 in the Pension (and other employee benefits) Trust Funds, representing 8.0%, of the total assets of the Fiduciary Fund Type.

The Commonwealth maintains a short-term investment pool established by the State Treasurer on June 8, 1977 through a Declaration of Trust. The investments are carried at amortized cost, which approximates fair value. The primary government's and component unit's share are reported as short-term investments within their respective reporting categories. The various local governments and other political subdivisions share of net asset is approximately \$2,890,323,000 is reported as an External Investment Trust within the Fiduciary Fund Type.

Included in the discretely presented Component Units is approximately \$882,322,000 in investments, whose valuation was determined by management. In making its valuations, management considered the cost of investments, current and past operating results, current economic conditions and their effect on the borrowers, estimated realizable values of collateral, and other factors pertinent to the valuation of investments. There is no public market for most of the investments. Management, in making its evaluation, has in many instances relied on financial data and on estimates by management of the companies they have invested in as to the effect of future developments.

Investments of the University of Massachusetts (UMass) are stated at fair value. Annuity contracts represent guaranteed investment contracts and are carried at present value. Investments of the Commonwealth's Employees Deferred Compensation Plan are carried at fair value.

E. Securities Lending Program

The Pension (and other employee benefits) Trust Funds participate in securities lending programs. Under these programs, the Trusts receive a fee for allowing brokerage firms to borrow certain securities for a predetermined period of time, securing such loans with cash or collateral typically equaling 102% to 105% of the market value of the security borrowed. At June 30, 2001, the market value of the securities on loan from PRIT was approximately \$1,013,676,000. The value of the collateral held by PRIT amounted to approximately \$1,077,746,000 at June 30, 2001. The PRIT trust securities on loan were collateralized at all times by U.S. Treasury securities of at least 100% of the value of the loaned securities. The collateral securities cannot be pledged or sold by PRIT unless the borrower defaults. The securities lending agents indemnify PRIT in the event that the agents fail to return the securities lent or if the collateral is inadequate to replace the securities lent. PRIT does not believe it has credit risk exposure to the borrower because the amounts PRIT owes the borrower exceeds the amounts the borrower owes PRIT. The securities on loan are included in investments at fair value as of June 30, 2001 in the combined balance sheet.

F. Receivables

In general, tax revenue is recognized on the government-wide statements, when assessed or levied and on the governmental financial statements to the extent that it is both measurable and available. Receivables are stated net of estimated allowances for uncollectible accounts. Reimbursements due to the Commonwealth for its expenditures on federally funded reimbursement and grant programs are reported as "Due from federal government."

G. Due From Cities and Towns

These amounts represent reimbursement due to the Commonwealth for its expenditures on certain programs for the benefit of cities and towns.

Inventories included in the Governmental Fund Types represent food stamps on hand and are stated at face value.

H. Inventories and Other Assets

The costs of materials and supplies are recorded as expenditures in Governmental Funds when purchased.

I. Fixed Assets

For Governmental Funds, general fixed asset acquisitions are recorded as expenditures in the acquiring fund and capitalized in the year purchased. Fixed assets are recorded at historical cost, or at estimated historical cost if actual historical cost is not available. Donated fixed assets are recorded at the estimated fair market value at the date of the donation.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Improvements are capitalized.

The Commonwealth capitalizes all land except land associated with infrastructure. It capitalizes buildings in excess of \$100,000 and singular pieces of equipment vehicles and computer software with costs in excess of \$15,000 at the date of acquisition and with expected useful lives of greater than one year. Interest incurred during construction is not material and it is not capitalized. Infrastructure fixed assets such as roads, bridges, tunnels, dams, water and sewer systems are capitalized for the first time with the implementation of GASB 34.

The University of Massachusetts capitalizes all other fixed assets with costs in excess of \$1,000. The community colleges capitalize all other fixed assets with costs in excess of \$15,000 consistent with the Commonwealth's fixed asset policy. All fixed assets are depreciated on a straight-line basis over the estimated useful lives of the assets.

Fixed assets of the Component Units are capitalized upon purchase and depreciated on a straight-line basis over the estimated useful lives of the assets. Interest incurred during construction is capitalized.

J. Interfund/Intrafund Transactions

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

Receivables and payables resulting from transactions between Component Units and the primary government are classified as “Due to/from primary government” or “Due to/from component units.”

K. Statewide Cost Allocation Plan – Fringe Benefit Cost Recovery

Certain costs of nine “central service” agencies of the Commonwealth are recovered from the remaining agencies in a federally approved statewide cost allocation plan. These costs that are allocated are based upon benefits received by the user agency that benefits from these services. The Commonwealth also appropriates and pays the fringe benefit costs of its employees and retirees through the General Fund. These fringe benefits include the costs of employees’ group health insurance, pensions, unemployment compensation and other costs necessary to support the workforce. As directed by Massachusetts General Laws, these costs are assessed to other funds based on payroll costs, net of credits for direct payments. Since fringe benefit costs are not separately appropriated or otherwise provided for in these funds, the required assessment creates an unfavorable budget variance in the budgeted funds. The employees’ group health insurance and worker’s compensation activity is accounted for in the governmental funds. The Commonwealth has elected not to present its cost allocation and recovery separately in the Statement of Activities.

L. School Construction Grants Payable

The Commonwealth, through legislation, is committed to reimburse certain cities, towns and regional school districts for a portion of their debt service costs for school construction and renovation. For the statement of net assets, this amount is recorded as a long-term liability with the amount to be paid during the next fiscal year reported currently. For the governmental fund statements, the amounts expected to be liquidated with available financial resources are reported as expenditures in fund liabilities.

M. Compensated Absences

For the statement of net assets, this amount is recorded as a long-term liability with the amount to be paid during the next fiscal year reported currently. For the governmental fund statements for governmental funds and Private Purpose Trust Funds, vested or accumulated vacation and sick leave expected to be liquidated with expendable available financial resources are reported as expenditures and fund liabilities.

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements and state laws. Upon retirement, termination or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at their current rate of pay.

N. Lottery Revenue and Prizes

Ticket revenues and prizes awarded by the Massachusetts Lottery Commission are recognized as drawings are held. For certain prizes payable in installments, the Commonwealth purchases annuities and principal-only and interest-only

treasury strips in the Commonwealth's name, which are recorded as annuity contracts and prizes payable in the Agency Funds. Though the annuities are in the Commonwealth's name, they are solely for the benefit of the prizewinner. The Commonwealth has no claim on the The Commonwealth retains the risk related to such annuities.

O. Risk Financing

The Commonwealth does not insure for employees workers' compensation, casualty, theft, tort claims and other losses. Such losses, including estimates of amounts incurred but not reported, are included as accrued liabilities in the accompanying financial statements when the loss is incurred. For employee's workers' compensation, the Commonwealth assumes the full risk of claims filed under a program managed by the Human Resources Division. For personal injury or property damages, Massachusetts General Laws limit the risk assumed by the Commonwealth to \$100,000 per occurrence, in most circumstances. The Group Insurance Commission administers health care and other insurance for the Commonwealth's employees and retirees. The Internal Service Funds account for workers' compensation and group insurance risk financing activities.

P. Net Assets

The Commonwealth reports net assets as reserved where legally restricted for a specific future use. Otherwise, these balances are considered unrestricted.

Fund balances have been reserved as follows:

"Reserved for employees' pension benefits" – identifies the net assets of the Commonwealth's public employee retirement systems, which cannot be used for any other purpose.

"Reserved for unemployment benefits" – identifies amounts reserved for payment of unemployment compensation.

"Reserved for retirement of indebtedness" – identifies amounts held by fiscal agents to fund future debt service obligations pertaining to Special Obligation Revenue Bonds authorized under Section 20 of Chapter 29 of the Massachusetts General Laws and Chapter 33, Acts of 1991 and Grant Anticipation Notes authorized by Chapter 11 of the Acts of 1997 and Chapter 121 of the Acts of 1998.

"Reserved for nonexpendable trusts" – identifies amounts being held by the Commonwealth on behalf of third parties for which only the interest can be expended.

"Reserved for capital projects" – identifies amounts reserved for capital projects.

"Reserved for investment pool participants" – accounts for assets held for governmental entities and other local governmental and political subdivisions, in an external investment trust.

Q. Reclassifications

During fiscal 2001 and 2002, the Commonwealth implemented the following new accounting standards issued by the GASB:

During Fiscal 2001

Statement No. 33 Accounting and Financial Reporting for Non-exchange Transactions

Statement No. 36 Recipient Reporting for Certain Shared Non-exchange Revenues

The provisions of these standards had no material effect on the Commonwealth's governmental funds. The standards required the Commonwealth's component units, however, to recognize grants and contributions as non-operating revenue on the former statements of revenues, expenses and changes in retained earnings. In prior periods, grants and contributions had been recorded as a direct increase in aid in the net asset section of the balance sheet. The total effect on the Commonwealth's financial statements of these entities adopting the provisions of GASB 33 during fiscal year 2001 was approximately \$451,000,000.

During Fiscal 2002

Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments. Statement No. 34, as amended by Statement No. 37, establishes new financial reporting standards for state and local governments. The statement's requirements represent a significant change in the financial reporting model used by governments, including statement formats and changes in fund types and account groups. In addition to the traditional fund financial statements, governments are required to report government-wide financial statements, prepared using the accrual basis of accounting and the economic resources measurement focus. As a result, fund reclassifications and adjustments to the fund equities reported in the prior financial statements were required.

Statement No. 35 Basic Financial Statements – and Management's Discussion and Analysis – For Public Colleges and Universities. Statement No. 35, establishes financial reporting standards for public colleges and universities within the guidelines of Statements Nos. 34 and 37. The institutions of higher education in the Commonwealth, reported as business-type activities, adopted the requirements of Statement 35.

Statement No. 37 Basic Financial Statements – and Management's Discussion and Analysis – Omnibus

Statement No. 38 Certain Financial Note Disclosures. Statement No. 38 requires certain note disclosures when Statement No. 34, 35 and 37 is implemented.

To conform with these statements, the following amounts have been reclassified and beginning balances have been restated (amounts in thousands):

	June 30, 2001 As Previously Reported	Fund Reclassifications	Accounting Adjustments	June 30, 2001 As Restated
GOVERNMENTAL FUNDS AND ACTIVITIES				
Major Funds:				
General Fund	\$ 2,730,216	\$ -	\$ -	\$ 2,730,216
Previously Reported as Special Revenue Funds:				
Local Aid	-	127,098	-	127,098
Lotteries	-	(13,017)	-	(13,017)
Previously Reported as Debt Service Fund:				
Debt Service	-	-	-	-
Previously Reported as Capital Project Funds:				
Highway Capital Projects	-	(849,605)	-	(849,605)
Central Artery Statewide Road and Bridge	-	1,637,373	-	1,637,373
Total Major Funds	2,730,216	901,849	-	3,632,065
Non Major Funds:				
Special Revenue Funds:				
Federal Grants	(6,245)	-	-	(6,245)
Highway	(265,289)	-	-	(265,289)
Local Aid	127,098	(127,098)	-	-
Environmental	(53,914)	-	-	(53,914)
Lotteries	(13,017)	13,017	-	-
Universal Health Care	153,679	-	-	153,679
Other	1,086,496	-	-	1,086,496
Total Special Revenue Fund Balances	1,028,808	(114,081)	-	914,727
Debt Service Fund				
Debt Service	-	-	-	-
Total Debt Service Fund Balances	-	-	-	-
Capital Project Funds:				
General	(107,117)	-	-	(107,117)
Capital Investment Trust	3,851	-	-	3,851
Convention and Exhibition Center	(154,832)	-	-	(154,832)
Capital Improvements and Investment Trust	108,133	-	-	108,133
Capital Expenditure Reserve	(143,427)	-	-	(143,427)
Highway	(849,605)	849,605	-	-
Federal Highway Construction	(280)	-	-	(280)
Central Artery Statewide Road and Bridge	1,637,373	(1,637,373)	-	-
Capital Needs Investment Trust	16,017	-	-	16,017
Government Land Bank	(6,300)	-	-	(6,300)
Intercity Bus Capital	(3,531)	-	-	(3,531)
Local Aid Capital Projects	(3,823)	-	-	(3,823)
Total Capital Project Fund Balances	496,459	(787,768)	-	(291,309)
Fiduciary Fund Type - Expendable Trust				
Deferred Compensation Trust	3,112,410	(3,112,410)	-	-
Unemployment Compensation	2,321,611	(2,321,611)	-	-
Expendable Trust	210,832	-	-	210,832
Revolving Loan	12,693	-	-	12,693
Teacher, Principal, Superintendent Quality Endowment	72,790	(72,790)	-	-
Total Fiduciary Fund Type Fund Balances	5,730,336	(5,506,811)	-	223,525
Previously Reported as Proprietary Fund Type:				
Internal Service Funds	-	(247,296)	-	(247,296)
Permanent Funds				
Previously Reported as Fiduciary Fund Type - Expendable Trust:				
Teacher, Principal, Superintendent Quality Endowment	-	72,790	-	72,790
Total Non-Major Funds	7,255,603	(6,583,166)	-	672,437
Total Governmental funds	9,985,819	(5,681,317)	-	4,304,502
Adoption of GASB Statement No. 33 and 34				
Revenue recognition	-	-	291,992	291,992
Capital assets net of depreciation	-	-	16,996,737	16,996,737
General obligation bonds	-	-	(13,999,454)	(13,999,454)
Accrued interest on bonds	-	-	(191,666)	(191,666)
Due to component units - Central Artery / Tunnel Project	-	-	(8,293,818)	(8,293,818)
School construction grants payable	-	-	(3,307,134)	(3,307,134)
Accrued interest on school construction grants	-	-	(243,640)	(243,640)
Other liabilities and long-term obligations	-	-	(371,848)	(371,848)
Adoption of GASB Statement No. 33 and 34	\$ -	\$ -	\$ (9,118,831)	\$ (9,118,831)
TOTAL GOVERNMENT FUNDS AND ACTIVITIES	\$ 9,985,819	\$ (5,681,317)	\$ (9,118,831)	\$ (4,814,329)

	June 30, 2001 As Previously Reported	Fund Reclassifications	Accounting Adjustments	June 30, 2001 As Restated
PROPRIETARY FUNDS AND BUSINESS-TYPE ACTIVITIES				
Major Funds:				
Previously Reported as Fiduciary Fund Type - Expendable Trust:				
Unemployment Compensation	\$ -	\$ 2,321,611	\$ -	\$ 2,321,611
Previously Reported as University and College Fund Type				
Higher Education	-	3,066,949	-	3,066,949
Total major funds	-	5,388,560	-	5,388,560
Non Major Funds:				
Internal Service Funds	(100,060)	100,060	-	-
Total Proprietary and Business-Type Funds	\$ (100,060)	\$ 5,488,620	\$ -	\$ 5,388,560
Adoption of GASB Statement No. 33 and 34				
Capital assets net of depreciation	\$ -	\$ -	\$ (1,650,926)	\$ (1,650,926)
Other accounting changes	-	-	16,592	16,592
Adoption of GASB Statement No. 33 and 34	-	-	(1,634,334)	(1,634,334)
TOTAL PROPRIETARY FUNDS AND BUSINESS	(100,060)	5,488,620	(1,634,334)	3,754,226
- TYPE ACTIVITIES	(100,060)	5,488,620	(1,634,334)	3,754,226
TOTAL PRIMARY GOVERNMENT	\$ 9,885,759	\$ (192,697)	\$ (10,753,165)	\$ (1,060,103)
OTHER ADJUSTMENTS				
FIDUCIARY FUND TYPE				
Pension Trust Funds				
Pension Trust Funds	\$ 29,503,347	\$ -	\$ -	\$ 29,503,347
External Investment Trust Funds				
External Investment Trust	2,890,323	-	-	2,890,323
Private Purpose Funds				
Non Expendable Trust	-	5,834	-	5,834
Owner Controlled Insurance				
Program	-	147,236	-	147,236
Agency Funds				
Agency Funds	-	-	-	-
Funds previously reported as:				
Non Expendable Trust	5,834	(5,834)	-	-
TOTAL FIDUCIARY FUNDS	\$ 32,399,504	\$ 147,236	\$ -	\$ 32,546,740
UNIVERSITY AND COLLEGE FUND TYPE				
University and Colleges	\$ 3,066,949	\$ (3,066,949)	\$ -	\$ -
TOTAL UNIVERSITY AND COLLEGE FUND TYPE	\$ 3,066,949	\$ (3,066,949)	\$ -	\$ -
ACCOUNT GROUPS				
General Fixed Assets	\$ 4,010,561	\$ -	\$ -	\$ 4,010,561
General Long-term Obligations	-	-	-	-
Total Account Groups	4,010,561	-	-	4,010,561
Adoption of GASB Statement No. 33 and 34				
Capital assets	-	-	(4,010,561)	(4,010,561)
Total Account Groups	4,010,561	-	(4,010,561)	-
TOTAL OTHER ADJUSTMENTS	\$ 39,477,014	\$ (2,919,713)	\$ (4,010,561)	\$ 32,546,740

2. BUDGETARY CONTROL

State finance law requires that a balanced budget be approved by the Governor and the Legislature. The Governor presents an annual budget to the Legislature, which includes estimates of revenues and other financing sources and recommended expenditures and other financing uses. The Legislature, which has full authority to amend the budget, adopts an expenditure budget by appropriating monies at the individual appropriation account level in an annual appropriations act.

Before signing the appropriations act, the Governor may veto or reduce any specific item, subject to legislative override. Further changes to the budget established in the annual appropriations act may be made via supplemental appropriations acts or other legislative acts. These must also be signed by the Governor and are subject to the line item veto.

In addition, Massachusetts General Laws authorize the Secretary of Administration and Finance, with the approval of the Governor, upon determination that available revenues will be insufficient to meet authorized expenditures, to withhold allotments of appropriated funds, which effectively reduce the account's expenditure budget.

The majority of the Commonwealth's appropriations are non-continuing accounts, which lapse at the end of each fiscal year. Others are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for spending in the current fiscal year. In addition, the Legislature may direct that certain revenues be retained and made available for spending within an appropriation. Fringe benefits and other costs that are mandated by state finance law are not itemized in the appropriation process and are not separately budgeted.

The original fiscal year 2001 appropriations act, Chapter 159, Acts of 2000, and authorized \$20,523,689,000 in direct appropriations. In addition, the act contained \$955,049,000 in authorizations to retain and expend certain non-tax revenues of which \$938,804,000 was estimated to be collected and expended. The Act also included \$121,074,000 in interagency chargebacks. Chapter 159 included estimates of \$15,203,800,000 in tax revenues and approximately \$6,383,045,000 in non-tax revenues. With these revenues (exclusive of chargebacks) projected to total approximately \$21,586,845,000 and with unreserved balances of approximately \$391,328,000 carried forward from the fiscal year 2000, the budget as presented in this original appropriation act was considered to be in balance.

Section 3 of Chapter 236, of the Acts of 2000, which was a supplemental budget for 2000, also authorized any excess funds from the final 2000 reconciliation of lottery revenues be carried forward and distributed to cities and towns. This amount totaled approximately \$955,000.

During fiscal year 2001, the Legislature also passed and the Governor signed, with some modification through veto, Chapters 196, 236, 311, 316, 354, 378, 384 and 410 of the Acts of 2000 and Chapters 3, 7, 8, 15 and 24 of the Acts of 2001, which included numerous supplemental budgetary appropriations. These supplements added \$606,273,000 of indirect appropriations and \$55,022,000 in retained revenue authorizations.

Subsequent to June 30, 2001, the Legislature passed and the Governor signed Chapters 88 of the Acts of 2001, which included \$164,150,000 in additional supplemental appropriations and \$1,337,000 in additional retained revenue authorizations. The cumulative fiscal year 2001 appropriations, retained revenues and interagency chargebacks totals \$22,427,549,000. Appropriations continued from fiscal year 2000 totaled approximately \$252,466,000 and certain interfund transfers directed by statute totaled approximately \$760,545,000.

Because revenue budgets are not updated subsequent to the original appropriation act, the comparison of the initial revenue budget to the subsequent, and often modified, expenditure budget can be misleading. Also, these financial statements portray fund accounting with gross inflows and outflows, thus creating a discrepancy to separately published budget documents. In conducting the budget process, the Commonwealth excludes those interfund transactions that by their nature have no impact on the combined fund balance of the budgeted funds.

Generally, expenditures may not exceed the level of spending authorized for an appropriation account. However, the Commonwealth is statutorily required to pay debt service, regardless of whether such amounts are appropriated. In addition, certain interfund assessments to allocate fringe benefits and other costs that are mandated by state finance law are not itemized in the appropriation process or separately budgeted.

3. DEPOSITS AND INVESTMENTS

Cash and Short-term Investments –The Commonwealth maintains a cash and short-term investment pool, which is utilized by the Governmental and Fiduciary Fund types.

Primary Government -

As of June 30, 2001, the carrying amount of the Primary Government's total cash and cash equivalents was \$1,080,918,000 and the corresponding bank balance was \$1,159,799,000. Bank deposits in the amount of \$5,672,000 were insured by the Federal Deposit Insurance Corporation, \$124,934,000 were collateralized in the name of the Commonwealth and are held by various financial institutions. Deposits of \$1,029,193,000 were uninsured and uncollateralized.

Component Units -

As of June 30, 2001, the carrying amount of the discretely presented Component Unit's total cash and cash equivalents was \$1,796,578,000 and the corresponding bank balances were \$1,444,877,000. Bank deposits of \$174,844,000 were insured by the Federal Deposit Insurance Corporation, \$941,000 were collateralized in the name of the respective component units, and \$1,269,092,000 were uninsured and uncollateralized.

Investments – The investments are reported at fair value in the financial statements. The deposits and investments of the Component Units and the University and College Funds and the investments of the Pension (and other employee benefit) Trust Funds are held separately from those of other Commonwealth funds, with the exception of their investments in MMDT.

Statutes authorize the Primary Government to invest in obligations of the U.S. Treasury, authorized bonds of all states, bankers' acceptances, certificates of deposit, commercial paper rated within the three highest classifications established by Standard & Poor's Corporation and Moody's Commercial Paper Record and repurchase agreements secured by any of these obligations. The Pension (and other employee benefit) Trust Funds are permitted to make investments in equity securities, fixed income securities, real estate and other alternative investments. In the following table, these alternative investments, venture capital and futures pools are classified as other investments. The investment policies of the Component Units are the same as the Primary Government's, except that they permit investment in equity securities.

Short-term investments and investments are classified as to collateral risk into the following three categories:

Category 1: Insured or registered, or securities held by the Commonwealth or its agent in the Commonwealth's name.

Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Commonwealth's name.

Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Commonwealth's name.

Primary Government – Investments of the Government at June 30, 2001, were as follows (amounts in thousands):

	Category 1	Category 2	Category 3	Total
<u>Investment</u>				
Repurchase agreements.....	\$ 893,885	\$ 2,069	\$ 49,051	\$ 945,005
U.S. Treasury obligations.....	2,025,746	14,593	-	2,040,339
Commercial paper.....	5,795,279	-	-	5,795,279
Government obligations.....	4,121,730	22,171	855	4,144,756
Equity securities.....	18,045,859	3,567	22,194	18,071,620
Fixed income securities.....	3,569,616	102	131,594	3,701,312
Asset backed investments....	78	-	35	113
Notes.....	571,492	-	-	571,492
Other.....	-	5,133	7,365	12,498
	<u>\$35,023,685</u>	<u>\$ 47,635</u>	<u>\$211,094</u>	<u>35,282,414</u>
Money market investments.....				797,440
Mutual fund investments.....				53,084
Annuity contracts.....				1,409,121
Real estate.....				1,732,287
Assets held in trust.....				2,323,446
Deposits with U.S. Treasury.....				2,171,193
Negotiable Certificates of Deposits.....				150,256
Other.....				1,692,078
Total.....				<u>\$45,611,319</u>

Following is a reconciliation of investments held by the Government (amounts in thousands):

Governmental Activity.....	\$ 5,993,631
Business Type Activity.....	362,702
Fiduciary Funds.....	<u>40,105,263</u>
	46,461,596
Less: Cash held by Fiduciary Funds.....	<u>850,277</u>
Total Investments.....	<u>\$ 45,611,319</u>

Financial Investments with Off-Balance Sheet Risk – Certain investments of the Commonwealth may involve a degree of risk not accounted for on the respective financial statements. A description of such “off-balance sheet risks” is as follows.

i) Forward Currency Contracts – The Pension (and other employee benefit) Trust Funds enter into forward currency contracts to hedge the exposure to changes in foreign currency exchange rates on foreign portfolio holdings. The market value of the contract will fluctuate with changes in currency exchange rates.

The contract is marked-to-market daily and the change in market value is recorded by the fund as an unrealized gain or loss by the Pension Trust Fund.

When the contract is closed, the Pension (and other employee benefit) Trust Funds record a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. The maximum potential loss from such contract is the aggregate face value in U.S. dollars at the time the contract was opened.

ii) Futures Contracts – The Pension (and other employee benefit) Trust Funds may purchase and sell financial futures contracts to hedge against changes in the values of securities the fund owes or expects to purchase. Upon entering such contracts, they must pledge to the broker an amount of cash or securities equal to the minimum “initial margin” requirements of the futures.

The potential risk is that the change in the value of futures contracts primarily corresponds with the value of underlying instruments, which may not correspond to the change in value of the hedged instruments. In addition, there is a risk that PRIT may not be able to close out its futures positions due to a nonliquid secondary market. Risks may arise from the potential inability of a counterparty to meet the terms of a contract and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar. The Pension (and other employee benefit) Trust Funds may also invest in financial futures contracts for nonhedging purposes.

Payments are made or received by the Pension (and other employee benefit) Trust Funds each day, depending on the daily fluctuations in the value of the underlying security, and are recorded as unrealized gains or losses. When the contracts are closed, the Pension (and other employee benefit) Trust Funds recognize a gain or loss. The notional value of the futures contracts at June 30, 2001 for the Pension (and other employee benefit) Trust Funds was approximately \$212,922,000 resulting with an unrealized loss of approximately \$559,000.

At June 30, 2001, U. S. Treasury Bills, U. S. Treasury Inflation Indexed Notes and asset-backed securities with principle of \$10,885,000, \$1,500,000, and \$2,600,000, respectively, were pledged to cover margin requirements for open futures contracts.

iii) Options – PRIT is also engaged in selling or “writing” options. The Pension (and other employee benefit) Trust Funds, as writers of options, may have no control over whether the underlying securities may be sold (call) or purchased (put) and, as a result, bear the market risk of an unfavorable change in the price of the security underlying the written option. As of June 30, 2001, there were no material options outstanding.

Component Units – Investments of the discretely presented Component Units at June 30, 2001 are as follows (amounts in thousands):

	Category 1	Category 2	Category 3	Total
<u>Investment</u>				
Repurchase agreements.....	\$ 5,500	\$ 317,385	\$ 3,226	\$ 326,111
U.S. Treasury obligations..	101,645	-	-	101,645
Commercial paper.....	184,829	-	-	184,829
Government obligations....	274,063	393,752	25,790	693,605
Equity securities.....	-	-	1,630	1,630
Fixed income securities.....	-	-	516	516
Asset backed investments	-	-	-	-
Notes.....	23,516	-	6,188	29,704
Other.....	-	-	4,784	4,784
	<u>\$589,553</u>	<u>\$ 711,137</u>	<u>\$ 42,134</u>	1,342,824
Assets held in trust.....				6,137
Guaranteed investment contracts.....				834,665
Negotiable Certificate of deposits.....				14,821
Total.....				<u>\$ 2,198,447</u>

Following is a reconciliation of investments as summarized above to the balance as recorded in the combined balance sheet (amounts in thousands):

Investments as summarized above.....	\$ 2,198,447
Less:	
Short-term investments reported in the combined balance sheet as cash and short-term investments.....	512,606
Restricted investments reported separately in the combined balance sheet.....	797,382
Assets held in trust reported separately in the combined balance sheet.....	6,137
Investments as reported in the combined balance sheet...	<u>\$ 882,322</u>

Following is a reconciliation of the balance of cash and short-term investments at June 30, 2001 (amounts in thousands):

Carrying amount of cash and cash equivalents.....	\$ 1,796,578
Short-term investments reported as cash and cash equivalents.....	<u>512,606</u>
Cash and cash equivalents as reported in the combined balance sheet.....	<u>\$ 2,309,184</u>

4. RECEIVABLES

Taxes, federal reimbursements, loans and other receivables are presented in the various funds as follows (amounts in thousands):

Primary Government –

	Taxes Receivable	Due From Federal Government	Other Receivables	Loans	Allowance For Uncollectibles	Net Accounts Receivable
Primary Government						
Governmental Activities	\$ 1,846,789	\$ 1,103,024	\$ 881,649	\$ -	\$ (910,049)	\$ 2,921,413
Business Type Activities	301,976	24,940	246,284	58,855	(175,847)	456,208
Total Receivables	2,148,765	1,127,964	1,127,933	58,855	(1,085,896)	3,377,621
Less: Allowances	(424,792)	(8,390)	(645,106)	(7,608)		
Net Primary Government Receivables	\$ 1,723,973	\$ 1,119,574	\$ 482,827	\$ 51,247		\$ 3,377,621

Discretely Presented Component Units –

	Massachusetts Bay Transportation Authority	Massachusetts Turnpike Authority	Massachusetts Water Pollution Abatement Trust	NonMajor Component Units	Total
Receivables, net of allowance for uncollectibles:					
Federal grants and reimbursement receivable	\$ -	\$ -	\$ 91,446	\$ 19,325	\$ 110,771
Less: Allowance for uncollectibles	-	-	-	-	-
Net Federal grants and reimbursement receivable	-	-	91,446	19,325	110,771
Loans	-	-	1,734,657	328,152	2,062,809
Less: Allowance for uncollectibles	-	-	-	(18,854)	(18,854)
Net Loans	-	-	1,734,657	309,298	2,043,955
Other receivables	15,297	20,616	46,109	36,729	118,751
Less: Allowance for uncollectibles	-	(642)	-	(414)	(1,056)
Net Other receivables	15,297	19,974	46,109	36,315	117,695
Total Receivables, net of allowance for uncollectibles	15,297	19,974	1,872,212	364,938	2,272,421
Less: Current portion	(15,297)	(19,974)	(227,426)	(70,661)	(333,358)
Long term portion	\$ -	\$ -	\$ 1,644,786	\$ 294,277	\$ 1,939,063

5. RECEIVABLES AND PAYABLES BETWEEN FUNDS AND COMPONENT UNITS

Receivables and payables between funds and component units reflected as due to/from primary government/component units in the combined balance sheet at June 30, 2001 are summarized as follows (amounts in thousands):

<i>Primary Government:</i>		<i>Component Units:</i>	
	Due from	Due to	
General Fund:			General Fund:
Special Revenue Funds:			RTAs.....
Federal Grants.....	\$ -	\$ -	MDFA.....
Highway.....	-	-	MCCA.....
Local Aid.....	-	-	MTPC.....
Environmental.....	-	-	Economic Development Entities.....
Capital Projects Funds:			Subtotal.....
General.....	-	-	
Capital Investment Trust.....	-	-	Special Revenue Funds:
Convention and Exhibition Center.....	-	-	MBTA.....
Capital Improvement & Investment Trust.....	-	-	RTAs.....
Capital Expenditure Reserve.....	-	-	Economic Development Entities.....
Highway.....	-	-	Subtotal.....
Federal Highway.....	-	-	
Central Artery Statewide Road			Capital Projects Funds:
and Bridge Infrastructure.....	-	-	RTAs.....
Intercity Bus.....	-	-	Economic Development Entities.....
Capital Needs Investment.....	-	-	Subtotal.....
Local Aid.....	-	-	
Other.....	-	-	Subtotal - Primary Government.....
University and College Fund:			
Current - Unrestricted.....	-	-	MBTA:
Subtotal.....	-	-	Special Revenue Funds:
			MBTA State and Local Contribution.....
Special Revenue Funds:			Subtotal.....
General Fund.....	-	-	
Special Revenue Funds:			RTAs:
Highway.....	-	-	General Fund.....
Capital Projects Funds:			Special Revenue Funds:
Federal Highway Construction.....	-	-	Highway.....
Other.....	-	-	Local Aid.....
Subtotal.....	-	-	Capital Projects Funds:
			General Capital Projects.....
Capital Projects Funds:			Subtotal.....
General Fund.....	-	-	
Special Revenue Funds:			MDFA:
Other.....	-	-	General Fund.....
Subtotal.....	-	-	Subtotal.....
Internal Service Funds:			MCCA:
University and College Funds:			General Fund.....
Current - unrestricted.....	-	-	Subtotal.....
Subtotal.....	-	-	
			MTPC:
University and College Fund:			General Fund.....
General Fund.....	-	-	Subtotal.....
Internal Services Funds:			
Employees Workers' Compensation.....	-	-	Economic Development Entities:
University and College Fund:			General Fund.....
Current - unrestricted.....	-	-	Special Revenue Funds:
Current - restricted.....	-	-	Local Aid.....
Loan.....	-	-	Massachusetts Tourism.....
Endowment.....	-	-	Capital Projects Funds:
Plant.....	-	-	General Capital Projects.....
Subtotal.....	-	-	Subtotal.....
			Subtotal Component Units.....
Total Primary Government.....	\$ -	\$ -	Total Component Units.....
			MBTA:
			Special Revenue Funds:
			MBTA State and Local Contribution.....

All contributions to the Central Artery / Tunnel Project from component units are reflected as additions to construction in process on the various component units' financial statements, pursuant to Massachusetts General Laws, Chapter 81A. The Commonwealth reflects these payments as transfers from component units.

As part of the Commonwealth's implementation of GASB 34, the Commonwealth has recorded the Commonwealth's construction cost to date for the Central Artery / Tunnel Project, net of amounts transferred to the Turnpike Authority (a component unit) and the Massachusetts Port Authority (Massport) (not a component unit.) This amount is reflected as "Construction in Process – Central Artery / Tunnel Project" along with two corresponding liabilities: "Due to Component Units – Central Artery / Tunnel Project" for the Turnpike Authority's portion and "Due to Other – Central Artery / Tunnel Project" for Massport's portion. As portions of the project are completed and transferred to either the Turnpike Authority or Massport in accordance with Massachusetts General Laws, Chapter 81A (MGL 81A) (upon agreement of the various engineers and the Authorities' Boards of Directors), these amounts will be reduced for the value of the assets transferred.

The Turnpike Authority will present its audited financial statements under GASB 34 on a calendar year basis for the year ended December 31, 2001. For fiscal 2001, the Commonwealth had the following payable to Component Units – Central Artery / Tunnel Project activity:

Total Project budget as of June 30, 2001	<u>\$ 14,075,000</u>
I. Determination of Turnpike Authority Amounts:	
Cumulative Authorized Project Invoices as of June 30, 2001	\$ 10,303,660
Less: Amounts to be transferred to Massport as of December 31, 2001	(354,748)
Less: Amounts transferred previous to December 31, 2001 to Massport	(10,252)
Less: Amounts transferred previous to December 31, 2001 to the Turnpike Authority	<u>(1,999,589)</u>
Subtotal - Due to Component Units - Central Artery / Tunnel Project as of June 30, 2001	7,939,071
Less: Construction Expenses January 1 to June 30, 2001	(603,561)
Amounts recognized as contributed by the Turnpike Authority as of December 31, 2000	<u>(1,355,000)</u>
Amounts not recognized as contributed by the Turnpike Authority as of December 31, 2000	<u>\$ 5,980,510</u>
II. Determination of Massport Amounts:	
Massport's Portion of the Central Artery / Tunnel Project as determined under MGL 81A	\$ 365,000
Less: Amounts recognized as Due to Other – Central Artery / Tunnel Project	<u>(354,748)</u>
Amounts transferred to Massport as of June 30, 2001	10,252
Amounts contributed by Massport to the project as of June 30, 2001	<u>\$ 95,288</u>

6. FIXED ASSETS

Primary Government-

Summary of Significant Accounting Policies

Methods used to value capital assets

Capital assets, which include property, plant, equipment and infrastructure (e.g. roads, bridges, ramps and other similar items), are reported in the applicable governmental or business-type activity columns of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair market value at the date of donation.

Capitalization Policies

All land and non-depreciable land improvements and donated historical treasures or works of art are capitalized, regardless of cost. Singular pieces of equipment, vehicles, computer equipment and software that equal or exceed \$50,000 (\$1,000 for the University of Massachusetts) are capitalized. Buildings and infrastructure projects are capitalized with a cost that equal or exceed \$100,000. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

Depreciation and useful lives

Applicable capital assets are depreciated using the straight-line method with a full year's depreciation charged in the year of acquisition and disposal, regardless of date. Estimated useful lives are as follows:

Type of Asset	Estimated Useful Life (in years)
Buildings	40
Infrastructure – Roads, Bridges, Tunnels	40
Infrastructure – Beaches, Boardwalks, Bikeways etc.	20
Infrastructure – Dams, water and sewer systems	50
Furniture	10
Library Collections that are not historical treasures	15
Equipment, Office Equipment, Life Safety Equipment, Vehicles	5
Computer Hardware and Software	3

Capital asset activities for the fiscal year ended June 30, 2001 are as follows (amounts in thousands):

Governmental Activities

	July 1, 2000 Beginning Balance	Additions	Deletions	June 30, 2001 Ending Balance
Capital assets not being depreciated:				
Land	\$ 579,995	\$ 15,644	\$ 344	\$ 595,295
Construction in process – Commonwealth	33,329	39,097	41,948	30,478
Construction in process – Central Artery / Tunnel Project	7,047,895	1,245,923	-	8,293,818
Total capital assets not being depreciated	7,661,219	1,300,664	42,292	8,919,591
Capital assets being depreciated:				
Buildings	2,648,197	236,957	176,746	2,708,408
Machinery and equipment	656,209	98,968	78,797	676,380
Infrastructure	10,287,633	234,305	-	10,521,938
Total capital assets being depreciated	13,592,039	570,230	255,543	13,906,726
Less accumulated depreciation for:				
Buildings	1,972,255	52,866	-	2,025,121
Machinery and equipment	484,832	21,977	-	506,809
Machinery and equipment under capital leases	67,348	22,153	-	89,501
Infrastructure	2,951,472	256,677	-	3,208,149
Total accumulated depreciation	5,475,907	353,673	-	5,829,580
Total capital assets, being depreciated, net	8,116,132	216,557	255,543	8,077,146
Governmental Activity capital assets, net	\$15,777,351	\$1,517,221	\$297,835	16,996,737

Business Type Activities including Colleges and the University

(in thousands)	July 1, 2000 Beginning Balance	Additions	Deletions	June 30, 2001 Ending Balance
Capital assets not being depreciated:				
Land	\$ 47,278	\$ 1,164	\$ 116	\$ 48,326
Construction in Process	136,410	15,206	27,274	124,341
Historical Treasures	-	536	-	536
Total capital assets not being depreciated	183,687	16,906	27,390	173,204
Capital assets being depreciated:				
Buildings	1,829,672	89,494	542	1,918,624
Machinery and equipment	519,212	92,132	39,395	571,949
Books	123,396	11,780	7,191	127,985
Total capital assets being depreciated:	2,472,279	193,406	47,127	2,618,558
Less accumulated depreciation for:				
Buildings	1,070,186	35,088	-	1,105,274
Machinery and equipment	317,779	58,245	2,681	373,344
Books	69,772	9,138	1,004	77,906
Total accumulated depreciation	1,457,737	102,471	3,684	1,556,524
Total capital assets, being depreciated, net	1,014,542	90,935	43,443	1,062,034
Business-Type Activity capital assets, net	\$ 1,198,230	\$ 107,841	\$ 70,833	\$ 1,235,238

Depreciation expense is not charged to particular functions of the primary government. It is charged in the aggregate.

Discretely Presented Component Units – Fixed assets consist of the following at June 30, 2001 (amounts in thousands):

	Massachusetts Bay Transportation Authority	Massachusetts Turnpike Authority	Massachusetts Water Pollution Abatement Trust	NonMajor Component Units	Total
Capital assets					
Land and other non-depreciable assets	\$ 141,819	\$ 72,527	\$ -	\$ 70,725	\$ 285,071
Buildings	6,014,971	487,609	-	497,219	6,999,799
Equipment and Furnishings	1,801,977	62,078	-	244,316	2,108,371
Infrastructure	-	1,355,794	-	30,472	1,386,266
Construction in progress	725,163	797,012	-	288,159	1,810,334
Less: Accumulated depreciation	(2,388,710)	(571,566)	-	(390,353)	(3,350,629)
Property, plant and equipment, net	<u>\$ 6,295,220</u>	<u>\$ 2,203,454</u>	<u>\$ -</u>	<u>\$ 740,538</u>	<u>\$ 9,239,212</u>

7. SHORT-TERM FINANCING AND CREDIT AGREEMENTS

Primary Government -

Massachusetts General Laws authorizes the Treasurer to issue temporary notes in anticipation of revenue or bond financing. When this short-term debt does not meet long-term financing criteria, it is classified as a fund liability. Short-term debt may be issued on either a stand-alone basis or through a commercial paper program maintained by the Commonwealth.

The following table summarizes short-term financing and credit activity for fiscal 2001: (Amounts in thousands)

	July 1, 2000		June 30, 2001		
	Beginning <u>Balance</u>	Issued / <u>Drawn</u>	Redeemed / <u>Repaid</u>	Ending <u>Balance</u>	Credit <u>Limit</u>
Primary Government					
<i>Governmental Funds</i>					
Commercial Paper	\$ -	\$ 720,000	\$ 620,000	\$ 100,000	Not Applicable
Letters of Credit Facilities	-	-	-	-	\$ 200,000
Lines of Credit Facilities	-	-	-	-	400,000
Bond Anticipation Notes	<u>-</u>	<u>400,000</u>	<u>-</u>	<u>400,000</u>	Not Applicable
Total Primary Government	<u>\$ -</u>	<u>\$ 1,120,000</u>	<u>\$ 620,000</u>	<u>\$ 500,000</u>	<u>\$ 600,000</u>
Discretely Presented Component Units					
<i>Major Component Units</i>					
Massachusetts Bay Transportation Authority:					
Bond Anticipation Notes	\$ 160,000	-	\$ 160,000	\$ -	Not Applicable
<i>Minor Component Units</i>					
Regional Transit Authorities					
Revenue Anticipation Notes	<u>78,053</u>	<u>87,513</u>	<u>78,053</u>	<u>87,513</u>	Not Applicable
Total Discretely Presented Component Units	<u>\$ 238,053</u>	<u>\$ 87,513</u>	<u>\$ 238,053</u>	<u>\$ 87,513</u>	

General Fund – Prior to June 30, 2000 the Commonwealth was authorized by Massachusetts General Laws to issue short-term notes to finance working capital advances to the MBTA. As a result of the Forward Funding of the MBTA, the Commonwealth is no longer authorized to provide working capital advances to the MBTA or to finance such advances by issuing short-term notes. Therefore, no such notes were outstanding on June 30, 2001.

The balance of revenue anticipation notes (RANs) outstanding may fluctuate during a fiscal year, but must be reduced to zero at June 30. During fiscal year 2001, no RANs were issued or were outstanding.

Capital Projects Funds – The Commonwealth may issue bond anticipation notes (BANs) to temporarily finance its capital projects.

In September 2000, December 2000, and March of 2001 through its commercial paper program, the Commonwealth issued BANs of \$220,000,000, \$250,000,000 and \$250,000,000, respectively. BANs were rolled over and paid down at various times during the fiscal year. No more than \$250,000,000 of commercial paper obligations was outstanding at any time. On June 30, 2001, \$100,000,000 of BANs was outstanding through the commercial paper program, all of which were retired before July 12, 2001.

In September and October 2001 the Commonwealth issued a combined total of \$250,000,000 of additional BANs through the commercial paper program to temporarily finance capital projects. The balance was paid down to \$50,000,000 as of December 18, 2001.

Letter-of-Credit Agreements – During fiscal year 2001, the Commonwealth maintained a letter-of-credit agreement with a bank in order to provide credit and liquidity support for its commercial paper program. The letter of credit was available to secure up to \$200,000,000 of Commonwealth commercial paper plus interest thereon. Advances were available, subject to certain limitations and bearing interest at the bank rate as defined, in anticipation of revenue or bond proceeds and payable by the following June 30, subject to extension in certain circumstances, at the Commonwealth's option. No such advances were drawn during the fiscal year ended June 30, 2001. The existing letter of credit agreement expires on December 28, 2003. The cost of the facility is approximately 0.15% on both unutilized and utilized amounts.

Line-of-Credit Agreements – During fiscal year 2001, the Commonwealth maintained line-of-credit agreements to provide liquidity support for commercial paper notes. On September 28, 1999, the Commonwealth entered into line-of-credit agreements with two banks to provide a total of \$400,000,000 in liquidity support for the Commonwealth's commercial paper program. These agreements expire in September of 2002 and 2004, respectively. The cost of these facilities is approximately 0.11% on both unutilized and utilized amounts.

On or before December 31, 2001 the Commonwealth expects to establish an additional line of credit for \$200,000,000.

Bonds Anticipation Notes – On September 7, 2000, the Commonwealth sold \$400,000,000 of General Obligation Bond Anticipation Notes, on a stand-alone basis, with an interest rate of 5.0%. The notes matured on September 6, 2001. The notes were issued to finance costs associated with the development of convention centers in Boston and Worcester, although the Commonwealth reserved the right to use the note proceeds to pay other capital costs of the

Commonwealth. The notes were retired on September 6, 2001, from a combination of the proceeds of long-term bonds and additional notes.

Discretely Presented Component Units -

The RTAs had \$87,513,000 short-term notes payable outstanding at June 30, 2001. All the notes mature during fiscal year 2002 and have interest rates ranging from 2.93% to 5.00%.

Subsequent to June 30, 2001, the RTAs rolled over \$45,657,000 of revenue anticipation notes with interest rates ranging from 3.00% to 3.65% due in fiscal year 2002.

8. LONG-TERM DEBT

Under the Constitution of the Commonwealth of Massachusetts, the Commonwealth may borrow money (a) for defense, (b) in anticipation of receipts from taxes or other sources, any such loan to be paid out of the revenue of the year in which the loan is made, or (c) by a two-thirds vote of the members of each house of the Legislature present and voting thereon. The Constitution further provides that borrowed money shall not be expended for any other purpose than that for which it was borrowed or for the reduction or discharge of the principal of the loan. In addition, the Commonwealth may give, loan or pledge its credit by a two-thirds vote of the members of each house of the Legislature present and voting thereon, but such credit may not in any manner be given or loaned to or in aid of any individual, or of any private association, or of any corporation which is privately owned or managed.

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, including bonds and notes issued by it and all claims with respect thereto. However, the property of the Commonwealth is not subject to attachment or levy to pay a judgment, and the satisfaction of any judgment generally requires legislative appropriation. Enforcement of a claim for the payment of principal or interest on bonds and notes of the Commonwealth may also be subject to the provisions of federal or Commonwealth statutes, if any, enacted to extend the time for payment or impose other constraints upon enforcement.

As of June 30, 2001, the Commonwealth had three types of long-term debt outstanding: general obligation bonds, special obligation bonds and grant anticipation notes.

General Obligation Bonds - are authorized and issued primarily to provide funds for Commonwealth-owned capital projects and local government improvements. They are backed by the full faith and credit of the Commonwealth and paid from the Governmental Funds, in which debt service principal and interest payments are appropriated. Massachusetts General Laws provide for the allocation of bond proceeds to these authorizations in arrears, as expenditures are made, unless the proceeds are allocated at the time of issuance.

College Opportunity Bonds - Some Commonwealth general obligation debt is issued as College Opportunity Bonds (COBs) as authorized by the Massachusetts General Laws. Such bonds were initially issued in fiscal year 1996, and have been issued in each subsequent fiscal year including fiscal year 2001 when approximately \$6,626,000 of such bonds was issued. Outstanding

COBs had maturity dates ranging from 2001 through 2020. COBs have an accreting interest component payable at maturity. The annual accretion rate of each COB's maturity is a variable rate equal to the change in annual Consumer Price Index (CPI) plus 2.0%. Assuming the CPI averages 3.5% during the life of the outstanding COBs the payments due at maturities of the COBs will total approximately \$172,177,000. In addition, COBs pay current interest in the amount of 0.5% per year of the initial amount still outstanding. The full faith and credit of the Commonwealth back these bonds. These bonds are sold to fund the Commonwealth's "U. Plan" which is part of a college savings program administered by the Massachusetts Educational Financing Authority. These bonds are privately placed and are structured to meet the needs of investors in this plan.

County Debt Assumed - Chapter 38 of the Acts of 1997 and Chapter 300 of the Acts of 1998 abolished several Massachusetts counties on various effective dates. As part of these provisions, the Commonwealth assumed the outstanding debt of Middlesex County on July 1, 1997, of Hampden and Worcester Counties on July 1, 1998 and that of Essex County on July 1, 1999 and that of Berkshire County on July 1, 2000. The county debt assumed has become general obligation debt of the Commonwealth. As of June 30, 2001, \$1,375,000 of these obligations remains outstanding.

Special Obligation Bonds - The Commonwealth also issues special obligation revenue bonds as authorized by Massachusetts General Laws. Such bonds may be secured by all or a portion of revenues credited to the Highway Fund and are not general obligations of the Commonwealth. At June 30, 2001, the Commonwealth had outstanding \$542,195,000 of such special obligation bonds, secured by a pledge of 6.86 cents of the 21.00-cent motor fuel excise tax imposed on gasoline. No new special obligation bonds were issued during the fiscal year.

Federal Highway Grant Anticipation Notes (GANS) - The Commonwealth also issues Federal Highway GANS to finance current cash flow for the Central Artery/Tunnel Project in anticipation of future federal reimbursements. Section 9 through 10D of Chapter 11 of the Acts of 1997, as amended by Chapter 121 of the Acts of 1998, authorizes the Commonwealth to sell up to \$1,500,000,000 in GANS. All Federal Highway Construction reimbursements and reimbursements from the federal highway construction trust funds are pledged to the repayment of the GANS. At June 30, 2001, the Commonwealth has \$1,499,325,000 of GANS outstanding, including accrued interest on capital appreciation bonds with maturity dates ranging from 2005 to 2015. These notes are secured by the pledge of Federal Highway Construction Reimbursements without a general obligation pledge. Under certain limited circumstances, a portion of the revenue from the Commonwealth's motor fuels excise tax may be used to pay debt service on the GANS.

Variable Rate Demand Bonds - Included in the long-term debt is \$1,542,600,000 of general obligation variable rate demand bonds (VRDBs) maturing from 2007 through 2030 in varying amounts. The redemption schedule for these bonds is included in the bond redemption schedule contained herein. The interest rate on the VRDBs is determined either weekly or daily based on the activity of the Commonwealth's remarketing agents, and interest is paid monthly. On any reset date holders of the VRDBs can require the Commonwealth (acting through its remarketing and tender agents) to repurchase the bonds (a "put"). The remarketing agent is authorized to use its best efforts to resell any repurchased bonds by adjusting the interest rates offered. The

Commonwealth pays an annual fee to the remarketing agents equal to 0.05% of the par amount of the bonds.

Under the provisions of stand-by bond-purchase agreements entered into by the Commonwealth with certain commercial banks, the remarketing and tender agents are entitled to draw amounts sufficient to pay the purchase price of any bonds that cannot be resold. During any such period the Commonwealth is required to pay the bank(s) at an interest rate based on their respective prime lending rates. If the remarketing agent is unable to resell any put bonds within six months of the put date, the stand-by bond-purchase agreements include provisions to convert any such bonds to installment loans payable over an extended period of time, with interest payable at a rate based on the bank(s) prime lending rate(s). The stand-by bond-purchase agreements expire on various dates between September of 2003 and February of 2006. The Commonwealth is required to renew or replace these agreements as long as the VRDBs remain outstanding. The Commonwealth currently pays an annual fee to maintain these agreements, which averages 0.124% of the par amount of the bonds.

As of June 30, 2001, \$1,267,000,000 of the VRDBs have been issued as general obligation refunding bonds. In connection with the issuance of such refunding bonds, the Commonwealth has entered into interest rate exchange ("swap") agreements with certain counterparties. These agreements require the counterparties to pay the Commonwealth an amount equal to the variable rate payable on the bonds and in return the Commonwealth pays a specified fix rate. Only the net difference in interest payments is exchanged with the counterparty. The Commonwealth continues to pay interest to the bondholders at the applicable variable rates. Through these agreements the Commonwealth has effectively fixed its interest rate payment obligations on the relevant VRDBs at rates ranging from 4.15% to 4.659%, not including the cost of liquidity and remarketing. The Commonwealth will be exposed to a variable rate if the counterparties default or if the swap is terminated. A termination of the swap may also result in the Commonwealth making or receiving a termination payment.

Auction Rate Securities – Also included in the long-term debt is \$401,500,000 of general obligation Auction Rate Securities (ARS) maturing in varying amounts from 2020 through 2030. The interest rate payable on the bonds changes weekly as determined pursuant to specified auction procedures. Interest on the bonds is payable weekly. In the case of a failed auction (i.e., insufficient bids to clear the market) existing buyers may be required to hold their bonds with interest payable at a rate equal to a percentage of an ARS industry index.

For financial reporting purposes, long-term debt is carried at its face value, which includes discount and any issuance costs. The outstanding amount represents the total principal to be repaid. For capital appreciation bonds, the outstanding amount represents total principal and accreted interest to be repaid. When short-term debt has been refinanced on a long-term basis, it is reported as outstanding at its face amount.

The amount of long-term debt authorized but unissued is measured in accordance with the statutory basis of accounting. Only the net proceeds (exclusive of discount and costs of issuance) are deducted from the total authorized by the Legislature.

Changes in long-term debt outstanding (including discount and issuance cost) and bonds authorized - unissued for the year ended June 30, 2001 are as follows (amounts in thousands):

	Bonds Outstanding	Authorized and Unissued
Balance July 1, 2000.....	\$ 12,383,101	\$ 11,585,706
General and special obligation bonds:		
Principal, less discount and issuance costs.....	1,768,815	(1,768,815)
Net premium and issuance costs.....	(16,617)	-
Grant Anticipation Notes:		
Principal, less discount and issuance costs	600,009	(600,009)
Premium and issuance costs.....	(22,404)	
Deceased Debt:		
Principal on Deceased Debt.....	(611,493)	-
Retired discount on Deceased Debt.....	(27,360)	-
General obligation refunding bonds:		
Principal on Refunding Bonds.....	964,645	
Principal on Refunded Bonds.....	(907,661)	
Retired discount on Refunded Bonds.....	(3,609)	
Increase in bonds authorized.....	-	282,345
Contributions in lieu of bonds.....	-	41
Bonds retired.....	(127,972)	-
Deauthorized.....	-	(136,778)
Reversions.....	-	(72,072)
Balance June 30, 2001.....	<u>\$ 13,999,454</u>	<u>\$ 9,290,418</u>

Business Type Activities - Colleges and University Debt— Building authorities related to the University of Massachusetts and the state colleges have issued bonds for construction of higher education facilities and equipment. Such bonds are guaranteed by the Commonwealth in an aggregate amount not to exceed \$278,000,000. The bond agreements generally provide that revenues from student fees are pledged as collateral on the bonds and establish bond reserve funds, bond funds, and maintenance reserve funds. The University of Massachusetts and state colleges have also entered into various loan agreements as participants in the Massachusetts Health and Educational Facilities Authority's (MHEFA) ongoing capital asset program to finance construction projects and equipment.

At June 30, 2001, debt service requirements to maturity for principal (including discount, capital appreciation and issuance costs) and interest are as follows for both governmental and business-type activities (amounts in thousands):

Fiscal Year Ended June 30,	<u>Governmental Activities</u>		<u>Business - Type Activities</u>	
	<u>General Obligation</u>		<u>College and University Revenue</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2002	\$ 699,441	\$ 691,869	\$ 16,677	\$ 38,712
2003	751,941	653,439	33,668	37,936
2004	734,485	620,897	27,272	36,353
2005	796,597	588,028	21,559	34,816
2006	903,532	547,136	22,442	33,645
2007-2011	4,669,802	2,025,652	124,466	146,536
2012-2016	3,419,866	903,481	169,874	105,149
2017-2021	1,400,732	317,915	129,861	95,013
2022-2026	214,604	137,761	88,804	74,231
2027-2031	408,455	55,245	100,045	38,805
2032-2036	-	-	16,581	3,531
2037-2041	-	-	5,200	569
Total	<u>\$ 13,999,454</u>	<u>\$ 6,541,423</u>	<u>\$ 756,450</u>	<u>\$ 645,295</u>

The above schedule assumes the variable rate to be paid at 5%.

The Commonwealth issued bonds and notes through both competitive and negotiated sales during fiscal year 2001. The costs for legal counsel and underwriting fees (including estimated amounts related to competitive sales) for bond sales were \$739,569 and \$11,261,499 respectively. In addition, the Commonwealth paid \$80,000 for disclosure counsel services.

Bonds Defeased Through Refunding – As authorized by the Massachusetts General Laws, the Commonwealth advance refunded certain general obligation bonds through the issuance of \$964,645,000 of general obligation refunding bonds during fiscal year 2001. Net proceeds totaling approximately \$994,347,000 were used to purchase U. S. Government securities which were deposited in irrevocable trusts with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the liabilities therefore have been removed from the General Long-term Obligations Account Group. As a result of this refunding, the Commonwealth decreased current year debt service payments and has taken advantage of lower interest rates, and it has decreased its aggregate debt service payments by approximately \$39,640,000 over the next 20 years and will experience an economic gain (the difference between the present values of the debt service payments of the refunded and refunding bonds) of approximately \$41,875,000. At June 30, 2001, approximately \$911,270,000 of the bonds refunded remain outstanding and are defeased.

In August 2001, the Commonwealth refunded additional general obligation bonds through the issuance of \$596,745,000 of general obligation refunding bonds. Net proceeds totaling approximately \$629,240,000 were used to purchase U. S. Government securities which were deposited in irrevocable trusts with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the refunded bonds are considered to be defeased as of the date of the refunding and the liabilities therefore will be removed from the General Long-term Obligations Account Group in fiscal year 2002. As a result of this refunding, the Commonwealth decreased current year debt service payments and has taken advantage of lower interest rates, and it has decreased its aggregate debt service payments by approximately \$30,145,000 over the next 12 years and will experience an economic gain (the difference between the present values of the debt service payments of the refunded and refunding bonds) of approximately \$23,932,000.

Bonds Defeased Through Operating Surplus – At the end of fiscal year 2000, pursuant to the provisions of Chapter 87 of the Acts of 2000, the Commonwealth set aside \$650,000,000 of surplus funds in the debt defeasance fund to defease additional debt of the Commonwealth. \$500,000,000 of the funds were attributable to fiscal year 2000 and \$150,000,000 were from prior fiscal years. In July, August and December of 2000, the State Treasurer expended a combined total of \$650,037,000 from the Debt Defeasance Trust Fund to purchase securities and establish a sinking fund to provide for the payment of certain Commonwealth general obligation bonds maturing on August 1, 2000 through and including July 1, 2001. The securities purchased consisted of U.S. Government securities and certain obligations issued by federal agencies, all of which are being held by a third-party trustee in an irrevocable trust. The approximate principal amount of Commonwealth general obligation bonds defeased pursuant to these transactions is \$638,853,000, including \$32,810,000 of bonds maturing on July 1, 2001. The amount that would have been expended for debt service on such bonds in fiscal 2001 (approximately \$624,589,000) was deposited in the Central Artery and Statewide Road and Bridge Infrastructure Fund, pursuant to the provisions of the act. An additional \$34,589,000, related to the defeased bonds maturing on July 1, 2001 was deposited in this fund on that date.

Prior Defeasance - In prior years, the Commonwealth defeased certain general and special obligation bonds by purchasing securities (from the proceeds of refunding bonds or from surplus operating funds) and placing them in irrevocable trusts to provide for all future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the financial statements. At June 30, 2001, approximately \$2,128,782,000 of bonds outstanding from activities in prior fiscal years are considered defeased.

Bond Issuances Subsequent to June 30, 2001

The following bond series' were issued subsequent to June 30, 2001, but before the date of the audit opinion:

<u>Description</u>	<u>Issue Size</u>	<u>Refunding Portion</u>	<u>Interest Rate Range (%)</u>	<u>FY of Maturities</u>
General Obligation Bonds Consolidated Loan of 2001, Series C	\$ 935,530	\$ 596,745	2.4-5.125	2002-2022
General Obligation Bonds Consolidated Loan of 2001, Series D	823,845	585,785	3-6	2004-2022
College Opportunity Bonds - Series 2001	5,636	-	Variable	2006-2021
General Obligation Bond Anticipation Notes 2001, Series A	350,000	-	4	2004

Major Discretely Presented Component Units

Massachusetts Water Pollution Abatement Trust, Pool Loan Program Bonds, Series 7	321,805	207,206	3-5.25	2002-2031
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Minor Discretely Presented Component Units

Various Regional Transit Authorities - Revenue Anticipation Notes	45,657		3-3.65	2002
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Statutory Debt Limit – The Massachusetts General Laws establish limits on the amount of governmental direct debt outstanding. By statutorily limiting the Commonwealth's ability to issue direct debt, this limit provides a control on annual capital spending. The direct debt limit for fiscal year 2001 was approximately \$11,076,483,000. Outstanding governmental debt subject to the limit at June 30, 2001 was approximately \$10,279,959,000. The limit increases 5% per year.

For purposes of determining compliance with the limit, outstanding direct debt is defined to include general obligation bonds and minibonds at the amount of their original net proceeds. It excludes BANs and discount and issuance costs, if any, financed by these bonds. It also excludes special obligation bonds, GANs, refunded bonds, certain refunding bonds, debt issued by counties, and debt issued in conjunction with the MBTA forward funding.

The amounts excluded from the governmental debt limit are as follows (amounts in thousands):

	<u>Debt Outstanding</u>
Balance June 30, 2001.....	\$ 13,999,454
Less amounts excluded:	
Discount and issuance cost.....	(282,829)
Chapter 5 of the Acts of 1992 Refunding...	(71,054)
Special Obligation Principal.....	(539,242)
GANs Principal.....	(1,500,000)
County Debt Assumed.....	(1,375)
MBTA Forward Funding.....	(325,000)
Central Artery Tunnel.....	(999,995)
Outstanding Direct Debt.....	<u>\$ 10,279,959</u>

Other long -term liabilities will be liquidated in the future from governmental funds. During the year ended June 30, 2001, the following changes occurred in liabilities reported as part of the long term liabilities in the statement of net assets (amounts in thousands)

Governmental Activities	Interest Rates	Maturity Through	Balance as of July 1, 2000	Additions	Reductions / Retirements	Balance as of June 30, 2001
Bonds Payable:						
General Obligation Debt	0.00 - 8.00%	2031	\$ 10,562,837	\$ 2,734,241	\$ 1,619,695	\$ 11,677,383
Special Obligation Debt	4.30 - 7.00%	2017	561,335	-	22,093	539,242
Grant Anticipation Notes	0.00 - 7.00%	2015	899,991	600,009	-	1,500,000
Unamortized (Premiums) / Discounts:						
General Obligation Debt			334,059	22,601	76,109	280,551
Special Obligation Debt			3,150	-	197	2,953
Grant Anticipation Notes			21,729	-	22,404	(675)
Total Bonds Payable			\$ 12,383,101	\$ 3,356,850	\$ 1,740,497	\$ 13,999,454
Other Long Term Liabilities:						
Compensated Absences			\$ 146,473	\$ 7,716	\$ -	\$ 154,192
Prizes Payable			6,409	4,092	-	10,501
Claims and Judgements			134,800	-	21,800	113,000
Capital Lease Obligations			53,459	38,849	-	92,308
School Construction Grants Payable			4,746,571	667,654	-	5,414,225
Total Other Long - Term Liabilities			\$ 5,087,712	\$ 718,311	\$ 21,800	\$ 5,784,226
Total Long - Term Liabilities			\$ 17,470,813	\$ 4,075,161	\$ 1,762,297	\$ 19,783,680
Business - Type Activities						
Bonds Payable:						
Revenue Obligation Debt	3.00 - 12.00%	2034	\$ 507,904	\$ 248,546	\$ -	\$ 756,450
Other Long Term Liabilities:						
Compensated Absences			\$ 114,832	\$ 11,948	\$ -	\$ 126,780
Capital Lease Obligations			75,031	14,363	-	89,394
Total Other Long - Term Liabilities			\$ 189,863	\$ 26,311	\$ -	\$ 216,174
Total Long - Term Liabilities			\$ 697,767	\$ 274,857	\$ -	\$ 972,624

Discretely Presented Component Units – Bonds and notes outstanding at June 30, 2001 (December 31, 2000 for Massachusetts Turnpike Authority), net of unamortized discount of approximately \$183,415,000 and unamortized loss on refunding of approximately \$65,617,000, are as follows (amounts in thousands):

	Interest Rates	Maturity Through	Balance as of July 1, 2000	Additions	Reductions / Retirements	Balance as of June 30, 2001
Major Component units:						
Massachusetts Bay Transportation Authority						
General Transportation System	3.85 - 7.00	2007-2030	\$ 3,427,608		\$ 63,156	\$ 3,364,452
Boston Metropolitan District	5.00 - 6.00	2002-2014	33,471		2,646	30,825
Revenue Bonds	4.40 - 5.75	2030	-	600,000	-	600,000
			<u>3,461,079</u>	<u>600,000</u>	<u>65,802</u>	<u>3,995,277</u>
Massachusetts Turnpike Authority						
Revenue Serial Bonds	3.90 - 5.65	2004-2039	2,426,628	4,366	-	2,430,994
Massachusetts Water Pollution Abatement Trust						
MWPAT Revenue Bonds	4.00 - 6.375	2000-2030	868,141	341,430	43,506	1,166,065
Subordinated Revenue Refunding	4.00 - 6.00	2000-2029	528,595		16,950	511,645
			<u>1,396,736</u>	<u>341,430</u>	<u>60,456</u>	<u>1,677,710</u>
NonMajor Component Units						
Notes payable	1.00 - 9.18	2001-2013	136,406	31,130	12,936	154,600
Current interest serial bonds	4.40 - 5.575	2001-2025	13,573	191,615	1,223	203,965
Compound interest serial bonds	5.25 - 6.80	2001-2033	58,214	198,018	12,972	243,260
Electric System Utility bonds (Devens)	5.13 - 6.00	2011-2030	-	10,640	-	10,640
Devens projects bonds	Weighted Avg 6.31	2007	-	63,521	465	63,056
Revenue bonds payable		2040	185,594	-	3,296	182,298
			<u>393,787</u>	<u>494,924</u>	<u>30,892</u>	<u>857,819</u>
Total			<u>\$ 7,678,230</u>	<u>\$ 1,440,720</u>	<u>\$ 157,150</u>	<u>\$ 8,961,800</u>

The amounts below represent the face amounts of bonds and notes outstanding and may differ from the amounts included in the combined balance sheet due to treatment of original issue discount in the general-purpose financial statements. Maturities of principal are as follows (amounts in thousands):

Years Ending June 30,	Massachusetts Bay Transportation Authority	Massachusetts Turnpike Authority	Massachusetts Water Pollution Abatement Trust	NonMajor Component Units	Total
	Authority	Authority	Trust	Units	
2002	\$ 115,804	\$ 7,945	\$ 65,935	\$ 55,756	\$ 245,440
2003	124,081	12,295	68,625	30,780	235,781
2004	127,915	13,050	70,020	32,941	243,926
2005	135,420	39,935	71,425	36,431	283,211
2006	147,330	19,535	71,795	33,091	271,751
2007 - 2011	755,905	2,456,268	389,525	544,337	4,146,035
2012 - 2016	813,590		395,115	47,600	1,256,305
2017 - 2021	790,930		303,260	23,713	1,117,903
2022 - 2026	730,860		165,460	21,860	918,180
2027 - 2031	384,440		76,550	17,085	478,075
2032 - 2036	-		-	12,470	12,470
2037 - 2040	-		-	6,815	6,815
	<u>\$ 4,126,275</u>	<u>\$ 2,549,028</u>	<u>\$ 1,677,710</u>	<u>\$ 862,879</u>	<u>\$ 9,215,892</u>

The MBTA issued certificates of participation in the amounts of approximately \$28,565,000 on December 15, 1988 and approximately \$85,795,000 on August 30, 1990 to finance the purchase of commuter rail coaches. Under the terms of the applicable agreements, the MBTA's obligation to make the annual payments on the certificates is subject to the Commonwealth's appropriation of necessary funds in its annual budget.

The certificates bear interest at rates ranging from 7.30% to 7.80% and mature as follows (amounts in thousands):

Years Ending June 30,	Amount
2002.....	\$ 1,150
2003.....	1,140
2004.....	1,140
2005.....	1,140
2006.....	1,135
2007 - 2011.....	1,135
	<u>\$ 6,840</u>

On February 22, 1995, Pioneer Valley Transit Authority (PVRTA) issued certificates of participation of approximately \$9,930,000 to finance the purchase of buses. Under the terms of the agreement, PVRTA is obligated to make annual payments on the certificates subject to the Commonwealth appropriated the necessary funds in the Authority's annual budget. As of June 30, 2001, the principal amount of certificates outstanding is \$2,468,000.

In prior years, the MBTA defeased in-substance several General Transportation System Bonds by placing the proceeds of new bonds in an irrevocable trust fund to provide for future debt service payments on the old debt. Accordingly, the trust account asset and the liability for the defeased bonds are not included in the

accompanying financial statements. On June 30, 2001, approximately \$1,943,220,000 of these bonds outstanding are considered defeased.

Massachusetts Bay Transportation Authority – In August 2001, the Massachusetts Bay Transportation Authority defeased \$117,975,000 of General Transportation System Bonds by placing \$122,680,000 of proceeds from the assessment bonds in an irrevocable trust fund to provide for future debt service payments on the old debt.

9. INDIVIDUAL FUND DEFICITS

Certain funds within the Governmental Fund Type and Proprietary Fund Type have fund deficits at June 30, 2001 as follows (amounts in thousands):

<u>Fund</u>	<u>Amount</u>
Special Revenue:	
Federal Grants.....	\$ 6,245
Highway.....	265,289
Environmental.....	53,914
Lotteries.....	13,017
Capital Projects:	
General Capital Projects.....	107,117
Convention and Exhibition Center.....	154,832
Capital Expenditure Reserve.....	143,427
Highway.....	849,605
Federal Highway Construction.....	280
Government Land Bank.....	6,300
Intercity Bus.....	3,531
Local Aid.....	3,823
Internal Service Funds:	
Employees Workers' Compensation.....	240,960
Employees Group Health Insurance	7,922

The Environmental Fund has incurred a deficit primarily due to increased state funding for clean up of hazardous waste for the Environmental Permitting and Compliance Fund. The revenues allocated to this fund have not been sufficient to support the increased spending. The Commonwealth will budget in future years the allocation of revenue to support the increased spending authority.

Deficits in the Capital Projects Funds reflect the time lag between capital expenditures and the receipt or allocation of proceeds from the sale of related bonds and the amortization of the net cost of forward funding the MBTA.

The deficit in the Internal Service Fund reflects the accruals for workers' compensation and group insurance claims of \$248,882,000. Funding of these deficits is dependent upon legislative actions to develop an actuarial funding plan.

10. RETIREMENT SYSTEMS

Primary Government – The Commonwealth is statutorily responsible for the pension benefits for Commonwealth employees (members of the State Employees' Retirement System) and for teachers of the cities, towns, regional school districts throughout the Commonwealth and Quincy College (members of the Teachers' Retirement System, except for teachers in the Boston public schools, who are members of the State-Boston Retirement System but whose pensions are also the responsibility of the Commonwealth). The members of the retirement systems do not participate in the Social Security System.

The Commonwealth has assumed responsibility for payment of cost-of-living adjustments (COLA) for the separate (non-teacher) retirement systems of its cities, towns and counties, granted in fiscal year 1997 and prior. The Commonwealth is statutorily required to have an actuarial valuation once every three years and every two years on a GAAP basis.

Certain Commonwealth employees and current retirees employed prior to the establishment of the State Employees' Retirement System are covered on a "pay-as-you-go" basis. During the year ended June 30, 2001, the Commonwealth's pension expenditure included payments totaling \$18,072,000 to current retirees employed prior to the establishment of the current plans and the non-contributory plans.

Plan Descriptions –

State Employees' Retirement System (SERS) is a single employer defined benefit public employee retirement system (PERS), covering substantially all employees of the Commonwealth and certain employees of the independent authorities and agencies, including the state police officers at the Massachusetts Port Authority and the Massachusetts Turnpike Authority. The SERS is administered by the Commonwealth and is part of the reporting entity and does not issue a stand alone financial report.

Teachers' Retirement System (TRS) is an agent multiple employer defined benefit PERS. The Commonwealth is a non-employer contributor and is responsible for all contributions and future benefit requirements of the TRS.

The TRS covers certified teachers in cities (except the City of Boston), towns, regional school districts and Quincy College. The TRS is administered by the Commonwealth and is part of the reporting entity and does not issue a stand-alone financial report.

State – Boston Retirement System (SBRS) is hybrid multiple employer defined benefit PERS. SBRS provides pension benefits to all full-time employees upon commencement of employment with any of the various government agencies covered by SBRS. The Commonwealth is a non-employer contributor and is only responsible for the actual cost of pension benefits for SBRS participants who serve in the City of Boston's School Department in a teaching capacity. The cost of pension benefits of the other participants is the responsibility of the City of Boston. SBRS is not administered by the Commonwealth and is not part of the reporting entity and a stand-alone financial report is not available. The policy for postretirement benefit increases for all retirees of the SERS, TRS, SBRS and COLA of local governments is subject to legislative approval.

Membership – Membership in SERS, TRS and SBRS as of January 1, 2001, the date of the most recent valuation, is as follows:

	<u>SERS</u>	<u>TRS</u>	<u>SBRS</u>
Retirees and beneficiaries			
currently receiving benefits.....	44,027	32,631	2,426
Terminated employees entitled to benefits but not yet receiving them.....	<u>2,775</u>	<u>-</u>	<u>115</u>
Subtotal.....	<u>46,802</u>	<u>32,631</u>	<u>2,541</u>
Current employees:			
Vested.....	41,250	37,868	1,586
Non-vested.....	<u>45,868</u>	<u>48,930</u>	<u>3,985</u>
Subtotal.....	<u>87,118</u>	<u>86,798</u>	<u>5,571</u>
Total.....	<u><u>133,920</u></u>	<u><u>119,429</u></u>	<u><u>8,112</u></u>

Benefit Provisions – Massachusetts General Laws established uniform benefit and contribution requirements for all contributory PERS. These requirements provide for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, and group classification. The authority for amending these provisions is with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55.

During fiscal year 2001, the legislature passed Chapter 114 of the Acts of 2000, which modified Chapter 32 of the General Laws. This modification became effective on July 1, 2001. In Chapter 114, teachers who are members of the State Teachers Retirement System, or teachers who are members of the State – Boston retirement system before 1975, who resigned or took an unpaid leave of absence because of maternity leave will be allowed to "buy back" into the fund

up to a maximum of four years. The member must pay the amount determined by the retirement board by December 31, 2001 to qualify, as long as the member has worked longer than ten years. If the member completes ten years of service after December 31, 2001, payment can be made within 18 months of completion of ten years of service. In addition, the law creates a superannuation retirement benefit program for all teachers hired on or after July 1, 2001. This program has a contribution rate of 11 percent of regular compensation. To be eligible for the alternative benefit at retirement, the teacher must have completed thirty years of eligible service. All previous members may elect to participate in the program, as long as they participate with the equivalent of a minimum of five years of employee contributions at the new rate. If the member retires before five years, the teacher must pay into the system, the amount that would have been paid in one lump sum, or in installments as the Board may prescribe. The alternative benefit is calculated as the percentage of average compensation determined under the current formula increased by 2% of the average annual compensation for each full year of service in excess of 24 years. The election to participate is irrevocable.

Funding Progress – The SERS, TRS and SBRS actuarial determined contributions were computed as part of the actuarial valuation as of January 1, 2001. The Commonwealth has revised actuarial assumptions used in the calculation of contribution requirements and Unfunded Actuarial Liability (UAL.) The revised actuarial assumptions are the result of an experience study commissioned by the Commonwealth for the period 1996 to 1999 concluded in fiscal year 2001. The Commonwealth has fully phased-in its UAL from a market value of assets to an actuarial valuation of assets. In the third year of transition as of January 1, 2001 the calculated actuarial value of assets was 97% of the market value compared to 91% in the 2000 valuation and 97% in the 1998 valuation.

A significant change in assumption as of the January 1, 2001 valuation, that resulted from the experience study, was to modify projected salary increase percentage to reflect different groups of employees and years of service. The applicable annual rate in the current valuation range from 4.75% to 12% compared to the prior actuarial assumption of a single rate of 6%.

Other significant assumptions include (a) cost of living (inflation rate) increases of 3% per year on the first \$12,000 of the retirees total allowance, and (b) interest rate credited to the annuity savings fund of 4.5% per year. These calculations use a level dollar amortization method over 20-years closed period.

The following table presents the schedule of funding progress as presented in the six most recent actuarial valuations at the date indicated (amounts in thousands):

Actuarial Valuation as of January 1	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAL)	Funded Ratio %	Annual Covered Payroll *	UAL as a % of Covered Payroll
State Employees' Retirement System						
2001	\$ 13,922,000	\$ 15,170,000	\$ 1,248,000	91.8 %	\$ 3,700,000	33.7 %
2000	13,364,000	14,138,000	773,000	94.5	3,472,000	22.3
1998	9,914,000	11,361,000	1,447,000	87.3	3,111,000	46.5
1996	7,366,000	9,441,000	2,075,000	78.0	2,989,000	69.4
1995	5,879,000	8,602,000	2,723,000	68.3	2,992,000	91.0
1993	5,071,000	8,738,000	3,667,000	58.0	2,919,000	125.6
1992	4,699,000	7,303,000	2,604,000	64.3	2,638,000	98.7
Teachers' Retirement System						
2001	14,390,000	18,170,000	3,779,000	79.2	4,072,000	92.8
2000	13,681,000	16,420,000	2,739,000	83.3	3,704,000	73.9
1998	10,170,000	13,095,000	2,925,000	77.7	3,175,000	92.1
1996	7,553,000	10,252,000	2,699,000	73.7	2,810,000	96.0
1995	6,014,000	9,712,000	3,698,000	61.9	2,667,000	138.7
1993	5,142,000	8,921,000	3,779,000	57.6	2,428,000	155.6
1992	4,784,000	8,706,000	3,922,000	55.0	2,032,000	193.0
State - Boston Retirement System (Boston Teachers)						
2001	918,000	1,502,000	583,000	61.1	304,000	191.8
2000	860,000	1,381,000	521,000	62.3	285,000	182.8
1998	699,000	1,219,000	520,000	57.3	285,000	182.5
1996	549,000	1,025,000	476,000	53.6	274,000	173.7
1995	438,000	833,000	395,000	52.6	232,000	170.3
1993	370,000	743,000	373,000	49.8	206,000	181.1
1992	342,000	759,000	417,000	45.1	184,000	226.6

* - The covered payroll amounts approximate the employer payroll.

Pension Actuarial Valuation – The Commonwealth's pension actuarial valuation was performed as of January 1, 2001 pursuant to Chapter 32 of the General Laws of the Commonwealth of Massachusetts and based on the plan provisions at that time.

The Commonwealth was financially responsible for the COLA granted to participants in the 104 retirement systems of cities, towns and counties in fiscal year 1997 and prior fiscal years. Chapter 17 of the Acts of 1997 effective for fiscal year 1998 transferred the responsibility for funding COLAs for separate (non-teacher) retirement systems of cities and towns to the respective system. Any future COLA granted by the Legislature to employees of these plans will be the responsibility of the individual system. The individual employer governments are also responsible for the basic pension benefits. The retirement systems are not administered by the Commonwealth and are not part of the reporting entity. The actuarial accrued liability for COLA as of January 1, 2001 was \$764,000,000.

Contributions Required and Contributions Made – The retirement systems' funding policies have been established by Chapter 32 of the Massachusetts General Laws. The Legislature has the authority to amend these policies. The annuity portion of the SERS, TRS and SBRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation – 5% for those hired before January 1, 1975, 7% for those hired from January 1, 1975, through December 31, 1983 and 8% for those hired on or after January 1, 1984, plus an additional 2% of compensation above \$30,000 per year for those hired

on or after January 1, 1979. Regular employees and state police hired after June 30, 1996 are required to contribute 9% and 12% respectively of their regular compensation plus an additional 2% of compensation above \$30,000 per year. Costs of administering the plan are funded out of plan assets.

The Commonwealth's contribution for the pension benefit portion of the retirement allowance of SERS and TRS and required payments to cover SBRS and COLA contributions were originally established on a "pay-as-you-go" basis. As a result, amounts were appropriated each year to pay current benefits, without a systematic provision to fully fund future liabilities already incurred. Beginning in fiscal year 1988, the Commonwealth enacted the Pension Reform Act of 1987 and addressed the unfunded liability of SERS, TRS and its participation in SBRS and its COLA obligation. Chapter 32, Section 22C of General Laws enacted in 1998 calls for the payment of normal cost plus an amortization payment of UAL such that the UAL is reduced to zero by June 30, 2018.

This legislation also directs the Secretary of Administration and Finance to prepare a funding schedule to meet these requirements, and to update this funding schedule every three years on the basis of new actuarial valuation reports prepared under the Secretary's direction. Any such schedule is subject to legislative approval. If a schedule is not so approved, payments are to be made in accordance with the most recently approved schedule. The current legislatively approved funding schedule, a valuation as of January 1, 1999, was filed by the Secretary of Administration and Finance on March 1, 2000 has been deemed approved by the Legislature. Under the current schedule the amortization payments are designed to eliminate the unfunded liability by fiscal year 2018. Based on the previous funding schedule required contributions by the Commonwealth of \$1,022,050,000 were made during the fiscal year ended June 30, 2001.

Of this amount \$43,048,000 represents payments for COLA granted to participants in retirement systems of cities, towns and counties. GAAP requires that pension expenditures (costs) be based on an acceptable actuarial cost method and that they be not less than:

- Normal cost plus amortization of net pension obligation cost
- Interest and amortization on any unfunded prior service costs

The funding schedule discussed above follows an acceptable actuarial funding methodology to compute normal cost and the unfunded accrued actuarial liability.

No accrual is required for pension contribution on the Balance Sheet as the Commonwealth has contributed over 100% of its Annual Required Contribution (ARC).

The following table presents the schedule of employer contributions (amounts in thousands):

Actuarial Valuation as of January 1	Annual Required Contribution (ARC)	Interest on NPO	Amortization of NPO	Pension Cost	Actual Contribution Made	Net Pension (Obligation) Asset (NPO)	% of ARC Contributed	% of Pension Cost Contributed
State Employees' Retirement System								
2001	\$ 275,204	\$(109,731)	\$ (133,387)	\$ 298,861	\$ 320,381	\$ 1,351,592	116 %	107 %
2000	352,084	(108,400)	107,190	350,873	367,000	1,330,071	104	105
1999	319,454	(103,188)	98,556	314,822	378,000	1,313,944	118	120
1998	261,255	(83,446)	77,180	254,989	494,289	1,250,766	189	194
1997	246,037	(65,478)	41,889	222,448	463,590	1,011,466	188	208
1996	232,158	(46,918)	29,523	214,763	433,114	770,324	187	202
1995	249,640	(31,639)	19,614	237,615	417,361	551,973	167	176
1994	266,564	(18,448)	9,152	257,268	398,900	372,227	150	155
1993	243,587	(5,539)	2,694	240,742	402,100	230,595	165	167
1992	252,687	136	(65)	252,758	323,700	69,237	128	128
Teachers' Retirement System								
2001	475,053	(78,498)	(95,421)	491,976	539,000	998,513	113	110
2000	480,873	(79,487)	78,599	479,985	468,000	951,489	97	98
1999	373,777	(70,312)	67,155	370,620	481,826	963,474	129	130
1998	315,474	(59,126)	54,686	311,034	446,619	852,267	142	144
1997	245,426	(44,832)	28,681	229,275	418,519	716,682	171	183
1996	232,403	(30,311)	19,073	221,165	392,003	527,439	169	177
1995	277,343	(24,002)	14,880	268,221	342,441	356,601	123	128
1994	247,460	(15,975)	7,925	239,410	322,100	282,381	130	135
1993	225,838	(9,946)	4,837	220,729	296,100	199,691	131	134
1992	223,041	(4,996)	2,384	220,429	282,300	124,320	127	128
State-Boston Retirement System								
2001	66,820	1,542	1,875	66,488	86,000	815	129	129
2000	58,266	448	(443)	58,271	45,000	18,697	77	77
1999	53,453	(989)	944	53,409	36,000	5,426	67	67
1998	48,795	(2,114)	1,995	48,636	35,000	11,983	72	72
1997	34,621	(2,082)	1,332	33,871	35,000	25,619	101	103
1996	32,908	(1,860)	1,171	32,219	34,822	24,490	106	108
1995	28,168	(1,816)	1,126	27,478	28,000	21,887	99	102
1994	22,448	(1,216)	603	21,835	28,000	21,365	125	128
1993	20,463	(650)	316	20,129	27,200	15,200	133	135
1992	26,530	(634)	303	26,199	26,400	8,129	100	101

The total contributions required for SERS, TRS and SBRS are based on the entry age normal cost method using the same actuarial assumptions used to compute the net pension obligation.

Post-retirement Health Care and Life Insurance Benefits – In addition to providing pension benefits, under Chapter 32A of the Massachusetts General Laws, the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities, and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care benefit costs that is comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies. The Commonwealth recognizes its share of the costs of providing these benefits when paid. These payments totaled approximately \$209,643,000 for the fiscal year ended June 30, 2001. There are approximately 46,000 participants eligible to receive benefits at June 30, 2001.

11. DEFERRED COMPENSATION PLAN

The Commonwealth offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The plan, available to all employees of the Commonwealth and its political subdivisions, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the employee. Participants' rights under the plan are equal to the fair value of the deferred account for each participant. All plan assets are stated at fair value. It is the opinion of the Commonwealth that it has no liability for losses under the plan, but it does have the duty of due care which would be required of an ordinary prudent investor.

Accordingly, the Plan-Trust Declaration has been prepared such that the plan's assets are held in trust, and reported as an expendable trust fund, for the exclusive benefit of participants and their beneficiaries.

The deferred compensation trust fund uses the calendar year for its fiscal reporting cycle. Certain amounts recorded as agency activity in the discretely presented components are held in trust by the Commonwealth.

The Treasurer and Receiver General (Treasurer) of the Commonwealth of Massachusetts is the plan trustee. Per statute, the Treasurer is given authority, on behalf of the Commonwealth, to contract with state employees to defer a portion of those employees' compensation, and for the purposes of funding a deferred compensation program for the said employees to invest the deferred portion of the employees' income.

12. LEASES

Primary Government – Governmental Activities

In order to finance the acquisition of equipment, the Commonwealth has entered into various lease/purchase agreements, including tax-exempt lease purchase (TELP) agreements, which are accounted for as capital leases. Lease agreements are for various terms and contain clauses indicating that their continuation is subject to appropriation by the Legislature. For the fiscal year ended June 30, 2001, capital lease/purchase expenditures totaled approximately \$37,775,000. At June 30, 2001, the Commonwealth's aggregate outstanding liability under capital leases, the present value of the net minimum lease payments, totals approximately \$92,308,000. This liability is reported as a Long-Term obligation in both the governmental and business-type activities. Equipment acquired under capital leases and included as fixed assets totaled approximately \$112,432,000.

The Commonwealth has numerous operating lease agreements for real property and equipment with varying terms. These agreements contain provisions indicating that continuation is subject to appropriation by the Legislature. Operating lease expenditures for the fiscal year ended June 30, 2001 was approximately \$168,479,000.

Business Type Activities – University and Colleges information – At June 30, 2001, aggregate outstanding liability under capital leases, the present value of the net minimum lease payments, totaled approximately \$92,308,000. Equipment acquired under capital leases is included in University and College Fund fixed assets.

The Colleges and the University leases real property and equipment under numerous operating lease agreements for varying terms. Rental expenditures for the fiscal year ended June 30, 2001 were approximately \$15,479,000.

The following schedule summarizes future minimum payments under non-cancelable leases for Governmental activities and for the Colleges and University – reported as a business-type activity, for the fiscal year ended June 30, 2001 (amounts in thousands):

	Governmental Activities				Business - Type Activities Colleges and University			
	Capital Leases		Operating Leases	Total	Capital Leases		Operating Leases	Total
	Principal	Interest			Principal	Interest		
2002	\$ 21,901	\$ 1,847	\$ 121,392	\$ 145,140	\$ 19,472	\$ 3,128	\$ 13,853	\$ 36,453
2003	17,783	1,605	97,991	117,379	15,733	2,806	11,871	30,410
2004	14,789	1,486	70,870	87,145	13,282	2,296	9,363	24,941
2005	13,076	1,361	47,687	62,124	10,247	1,713	7,991	19,952
2006	8,614	1,272	20,842	30,728	7,883	1,569	5,079	14,531
2007-2011	16,146	2,454	68,336	86,935	22,322	5,373	9,921	37,615
2012-2016	-	-	-	-	281	68	1,278	1,626
2017-2021	-	-	-	-	174	42	762	978
Total	<u>\$ 89,603</u>	<u>\$ 12,730</u>	<u>\$ 427,118</u>	<u>\$ 529,451</u>	<u>\$ 89,394</u>	<u>\$ 16,995</u>	<u>\$ 60,118</u>	<u>\$ 166,506</u>

Discretely Presented Component Units –

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of net minimum lease payments as of June 30, 2001 (amounts in thousands):

Years Ending June 30,	Massachusetts Bay Transportation Authority	Massachusetts Turnpike Authority	Massachusetts Water Pollution Abatement Trust	NonMajor Component Units	Total
2002	\$ 43,825	\$ -	\$ -	\$ 736	\$ 44,561
2003	46,773	-	-	716	47,489
2004	48,380	-	-	716	49,096
2005	41,140	-	-	717	41,857
2006	42,097	-	-	714	42,811
2007 - 2011	248,903	-	-	711	249,614
2012 - 2016	314,552	-	-	-	314,552
2017 - 2021	89,359	-	-	-	89,359
Total payments	875,029	-	-	4,310	879,339
Less: interest	(326,299)	-	-	(667)	(326,966)
Present value of net minimum lease payments	<u>\$ 548,730</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,643</u>	<u>\$ 552,373</u>

The MBTA has entered into several sale-leaseback agreements with major financial institutions, covering equipment and rolling stock, which has been accounted for as operating leases. These leases expire through fiscal year 2013. Upon termination, the MBTA may purchase the equipment and rolling stock at

prices equal to the lesser of a stated percentage (40%-70%) of the lessor's original purchase price or residual fair market value, as defined.

The MTA has operating leases for administrative office space and automatic toll collection equipment. These operating leases expire on various dates through June 2004. Lease expenses charged to the Massachusetts Turnpike and Sumner-Callahan-Williams Tunnels were approximately \$1,058,000 of which \$925,000 was paid to the Commonwealth for office space in a state-owned building.

The MTA leases property and air rights to others. The MTA earned approximately \$11,351,000 in rental income. Rental income for the next five years is expected to approximate \$8,693,000 per year based on leases currently in effect.

The Economic Development Entities and the RTAs have operating leases for office space.

The future minimum rental payments required under operating leases having initial or remaining non-cancelable lease terms in excess of one year are as follows (amounts in thousands):

<u>Years Ending June 30.</u>	Massachusetts Bay Transportation Authority	Massachusetts Turnpike Authority	Water Pollution Abatement Trust	NonMajor Component Units	Total
2002	\$ 13,382	\$ 925	\$ -	\$ 3,317	\$ 17,624
2003	14,071	925	-	3,336	18,332
2004	13,651	1,388	-	1,807	16,846
2005	12,804	-	-	800	13,604
2006	13,370	-	-	459	13,829
2007 - 2011	64,519	-	-	575	65,094
2012 - 2016	19,564	-	-	245	19,809
2017 - 2021	-	-	-	191	191
Total payments	<u>\$ 151,361</u>	<u>\$ 3,238</u>	<u>\$ -</u>	<u>\$ 10,730</u>	<u>\$ 165,329</u>

13. COMMITMENTS

Primary Government –

Governmental Funds - As part of the General Appropriation Act of 2000 (Chapter 127 of the Acts of 1999) the funding mechanism for the net cost of service and other costs of the Massachusetts Bay Transportation Authority (MBTA) was changed. The change was effective July 1, 2000. Under the new funding method (Forward Funding), the MBTA's costs will be funded on a current basis. This method apportions a "dedicated sales tax" amounting to 1% of applicable sales in the Commonwealth, directly to the MBTA. The dedicated sales tax will be equal to the greater of the amount raised by the sales tax or \$645,000,000, (the base revenue,) subject to an adjustment for inflation, capped at 3% annually.

Regional Transit Authorities - Under Chapter 161B of the General Laws, the Commonwealth is obligated to provide annual subsidies to certain regional transit authorities for contract assistance, debt service assistance and their net cost of service deficiencies. The Commonwealth recovers a portion of these payments through assessments to the cities and towns served. During fiscal year 2001, net expenditures were \$16,417,000. In addition, for fiscal year 2001, the

Commonwealth appropriated \$17,232,000 to the regional transit authorities to cover net costs of service for the calendar year ended December 31, 2000.

MBTA and Other Authorities - The Commonwealth continues to guarantee MBTA debt issued prior to June 30, 2000 but no longer provides contract assistance on this debt. The amount of debt issued prior to June 30, 2000 that remains outstanding at June 30, 2001 totaled \$4,095,450,000.

The MBTA's forward funding legislation provides for the MBTA to issue general obligation, revenue or other debt secured by a pledge or conveyance of all or a portion of revenues, receipts or other assets or funds of the MBTA. This new debt is not backed by the full faith and credit of the Commonwealth. Finally, the MBTA will not receive any principal or interest subsidies from the Commonwealth for the repayment of either the prior debt or new debt of the MBTA beyond the pledged revenues.

In addition to the MBTA, the Commonwealth guarantees debt of a number of Public Authorities. At June 30, 2001, the aggregate outstanding debt for which the Commonwealth is obligated to provide contract assistance support totaled approximately \$196,641,000 long-term and \$86,266,000 short-term.

In addition, the Commonwealth guarantees the debt of certain local governments and public higher education building authorities but does not provide contract assistance. The guaranteed long-term debt outstanding at June 30, 2001 was approximately \$395,302,000.

At June 30, 2001, the Commonwealth had commitments of approximately \$1,707,745,000 related to ongoing construction projects. The majority relate to construction funding for the Central Artery/Tunnel Project. The Central Artery/Tunnel Project continues to anticipate federal participation and payments from the Massachusetts Turnpike Authority (MTA) and the Massachusetts Port Authority (MassPort).

On August 9, 2000, the Route 3 North Transportation Improvements Association issued its Commonwealth of Massachusetts Lease Revenue Bonds, Series 2000, in the aggregate principal amount of \$394,305,000, payable from lease payments to be appropriated annually by the Commonwealth through fiscal 2033. The bonds are an indirect obligation of the Commonwealth.

Saltonstall Building - On July 19, 2000, after reviewing proposals received from various development teams to redevelop the Saltonstall State Office Building, the Governor filed legislation that would authorize the Massachusetts Development Finance Agency (MDFA) to undertake the redevelopment. The provisions of the Governor's bill were added to the bond authorization legislation approved August 10, 2000 relating to preservation and management of the Commonwealth's real property assets. Under the provisions relating to the Saltonstall Building, the building is to be leased by the MDFA for a lease term of up to 50 years, with extension terms permitted for an aggregate of 30 more years). The MDFA will renovate the building and lease half of it back to the Commonwealth for office space and related parking (for a comparable lease term). The remainder of the building is to be redeveloped as private office space, as well as private housing units and retail establishments.

Central Artery / Tunnel Project - The Central Artery / Tunnel Project is the largest single component of the Commonwealth's capital program according to

the finance plan filed as of October 1, 2001. The current cost estimate is \$14.475 billion, an increase of \$400,000,000 from the October 1, 2000 plan. The largest components of the increase were added costs of construction and the addition of a project contingency budget. Both plans include a maximum obligation of \$8.549 billion from the federal government. Project milestones have been reviewed to include a nine-month extension to the I-90 opening and a four-month extension to the I-93 opening. The I-90 opening may be delayed further due to a major leak in the Fort Point Channel Tunnel discovered in October 2001. The finance plan is currently under review.

To make up for the \$400,000,000 in needed funds, the Governor immediately filed a bill to raise the bonding authority for the project in place under Chapter 87 of the Acts of 2000 from \$1.350 billion to \$1.5 billion. An additional \$175,000,000 is expected to come from \$50,000,000 in interest earnings and \$125,000,000 in bond capacity generated from higher than expected license and registration renewal fees. Both of these amounts will be reported within the Central Artery Statewide Road and Bridge Infrastructure Fund.

In connection with the Central Artery / Tunnel Project, on May 8, 2000, the State Treasurer's office was advised that the staff of the Securities and Exchange Commission (SEC) is conducting a formal investigation in the matter of "Certain Municipal Securities/Massachusetts Central Artery (B-1610.)" This is pursuant to a formal order of private investigation issued by the SEC. The attorneys on behalf of the Commonwealth believe that the likelihood of loss by the Commonwealth is remote.

During fiscal year 2001, the Commonwealth received payments from MTA and MassPort pursuant to three separate memoranda of understandings dated September 12, 1997 and August 13, 1998 and February 19, 1999 respectively. The MTA and MassPort made payments to the Commonwealth to finance portion of the Central Artery/Tunnel Project in the amount of \$200,000,000 and \$65,000,000 respectively. The payments totaling \$200,000,000 in fiscal year 2001 from MTA are presented as a "Transfer in Component Units" in the Capital Projects Fund. An additional \$4,000,000 is being held in escrow, pending an eminent domain settlement.

All payments pursuant to the agreements have been made from the MTA, except for the \$4,000,000 noted above. MassPort is due to make payments for the project under the agreements from fiscal 2003 through 2005 in the amounts of \$104,000,000, \$50,000,000 and \$51,000,000 in those respective fiscal years.

Pension (and other employee benefit) Trust Funds – At June 30, 2001, PRIT had outstanding commitments to invest approximately \$437,165,000 in real estate, and approximately \$1,750,215,000 in alternative investments. The fair value of the proposed investment commitments approximates their stated value.

PRIT regularly trades financial instruments with off-balance sheet risk in the normal course of its investing activities to assist in managing exposure to market risks such as interest rates. These financial instruments include forward foreign currency exchange contracts and financial futures contracts.

PRIT may enter into "TBA" (to be announced) purchase or sale commitments to purchase or sell mortgage backed securities. The risk of loss is in addition to the risk of decline in the value of PRIT's other assets. See PRIT footnotes to financial statements for more detail.

Discretely Presented Component Units -

Chapter 152 of the Acts of 1997 provides \$609,400,000 for the construction of a Convention and Exhibition Center that will provide 600,000 square feet of exhibit space at a site in South Boston. The Boston Redevelopment Authority (BRA) is authorized and directed by the legislation to acquire the land, properties, and rights related to the proposed construction site. Once this is accomplished, the Massachusetts Convention Center Authority (MCCA) will oversee construction of the new facility. The MCCA will operate the new center, along with the Hynes Convention Center, the Boston Common Garage, and the Springfield Civic Center.

As of June 30, 2001, the Massachusetts Water Pollution Abatement Trust (MWPAT) has agreed to provide loans of \$248,700,000 to various local government units to be funded with grant awards.

Massachusetts Housing Partnership Fund (MHP) has executed twenty-three loan agreements with ten banks totaling approximately \$440,932,000 pursuant to the Massachusetts Nationwide Interstate Banking and Community Reinvestment Act. Related to that, MHP has funding commitments outstanding for funds not yet advanced of approximately \$45,528,000 at June 30, 2001.

The MTA entered into construction contracts for the Metropolitan Highway system and the Western Turnpike with various construction and engineering companies. Construction contracts outstanding at December 31, 2000 approximated \$21,400,000. Projected construction expenses for calendar 2001 approximate \$71,800,000.

14. CONTINGENCIES***Primary Government -***

Governmental Funds – The General Fund services claims for all risks of loss for which the Commonwealth is exposed, other than workers' compensation and employee group health and life insurance, which are managed in its Internal Service Funds. A number of lawsuits are pending or threatened against the Commonwealth which arose from the ordinary course of operations. These include claims for property damage and personal injury, breaches of contract, condemnation proceedings and other alleged violations of law. For cases in which it is probable that a loss will be incurred and the amount of the potential judgment can be reasonably estimated, or a settlement or judgment has been reached but not paid, the Attorney General estimates the liability to be approximately \$27,000,000 as of June 30, 2001. The General Fund allocates the cost of providing claims servicing and claims payment by charging a premium to each fund based on claims paid during the year.

The Commonwealth receives significant financial assistance from the federal government. Entitlement to these resources is generally conditional upon compliance with terms and conditions of the grant or reimbursement agreements and with applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all federal financial assistance is subject to financial and compliance audits. Any disallowances become liabilities of the fund that received the assistance. As of June 30, 2001, the Commonwealth estimates that liabilities, if any, which may result from such audits are not material.

The Commonwealth's abandoned property law requires deposit of certain unclaimed assets into a managed Fiduciary Fund. These unclaimed assets, less \$4,925,000 that is expected to be reclaimed and paid in fiscal year 2002, are to be remitted to the General Fund each June 30, where it is included as a transfer. Amounts remitted during fiscal year 2001 totaled approximately \$86,585,000. Since inception, approximately \$968,607,000 has been remitted. This represents a contingency, because claims for refunds can be made by the owners of the property.

Tobacco Settlement – A Master Settlement Agreement (MSA) was executed in November of 1998 between five tobacco companies and 46 states, including the Commonwealth. The MSA called for, among other things, annual payments to the states in perpetuity. These payments have been estimated to total more than \$200 billion over the first 25 years, subject to various offsets, reductions, and adjustments. In fiscal year 2001, the Commonwealth received approximately \$242,470,000 or 87% of the estimated amounts shown in the agreement. Of that amount approximately \$81,506,000 was transferred to the Tobacco Settlement Fund, a governmental fund. The majority of expenditures from the fund this year were for Health and Human Services, Elder Affairs and Medicaid costs. The remaining receipts from fiscal 2001 are held for future use.

The amounts that might be payable, if any, by the Commonwealth for legal costs relating to the tobacco litigation cannot be determined at this time. The outside attorneys for the Commonwealth were awarded approximately \$775,000,000 in fees to be paid over time by the tobacco companies and, therefore, were not to be paid out of the Commonwealth's award. The outside attorneys have notified the Attorney General that they reserve their right to submit a claim to the Commonwealth for the difference between the \$775,000,000 and 25 percent of the Commonwealth's settlement payments.

Internal Service Fund - It is the policy of the Commonwealth to manage its risks internally and self-insure for claim settlements for risk of loss relating to workers' compensation for the state employees and group health insurance in its Internal Service Fund. The Internal Service Fund allocates the cost of providing claims servicing and claims payment by charging a premium to each fund based on actual claims paid during the year. All risk financing liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include amounts for claims that have been incurred but not reported. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

Employees Workers' Compensation and Group Health Insurance costs for Commonwealth employees are recognized when losses are incurred. The Commonwealth's outstanding liability for such losses at June 30, 2001, including claims incurred but not reported, is estimated to be \$294,249,000.

Central Artery/Tunnel Project – Owner Controlled Insurance Program (OCIP) - The Commonwealth has assumed responsibility for providing workers' compensation and general liability insurance coverage for all contractors and subcontractors working on the Central Artery/Tunnel Project by implementing OCIP. As part of its initial financial planning, Project management determined that an OCIP could provide necessary insurance coverage at a substantially lower aggregate cost than could be obtained if each contractor purchased coverage separately, because of economies of scale in the purchase of coverage from a single carrier, elimination of cross claims among

contractors, and implementation of a cost-effective safety and loss control program for the entire Project. The OCIP is presently structured as a retrospectively rated insurance program with loss retention (or deductible) levels of \$1,000,000 per claim, \$3,000,000 per occurrence for workers compensation and \$2,000,000 per claim, \$6,000,000 per occurrence for general liability coverage. The Commonwealth is responsible for loss costs up to these deductible levels.

As part of the OCIP, the Project has agreed to establish and fund a Trust, held by an independent third party Trustee, in an amount necessary to cover the Project's potential cumulative liabilities to the carrier for these loss costs, administrative expenses and certain defined contingencies under the OCIP. The OCIP is expected to cover such costs through the construction period and through the period after the construction during which all claims will be resolved and paid, referred to as the "tail period".

The amounts payable for workers' compensation coverage are based on standard premium at rates approved by the Insurance Commissioner. General liability premiums are based on negotiated rates and are paid directly to the insurance carrier, which holds the premium for three years, after which time, amounts may be transferred to (or from) the Trust based on loss experience for that year. In addition, the Trust earns investment income, part of which is paid to the carrier as part of its compensation and the remainder is credited to the Project and held in the Trust to cover the Project's cumulative obligations. The amounts in the Trust are restricted by its terms and cannot be used for other purposes. Any amounts which remain in the Trust after all losses and other obligations of the Project are paid, will be re-paid to the Project for distribution in accordance with funding agreements with the federal government. During fiscal year 2001, \$50,000,000 was transferred to the project.

The Project's OCIP activity is reported as an Internal Service Fund. The "Claims and Judgements liabilities" reported therein represents the Project's liabilities as estimated an independent actuary for incurred losses as of the end of the fiscal year. The Internal Service Fund also includes amounts set aside in the Trust to cover the Project's cumulative workers' compensation loss, its general liability loss and premium obligations along with certain other expenses, from the inception of the OCIP (1992) through the end of the tail period.

The estimated Claims and Judgements liability for occurrences through June 30, 2001 is \$83,400,000. This amount is based on the results of a review performed by an independent actuarial firm retained by the Project, and it represents an estimate of liabilities incurred based on past experience for claims reported and not reported as of June 30, 2001. This estimate does not reflect the maximum potential obligation of the Project under the terms of the OCIP agreement.

For a period of time prior to the finalization of the amended and restated agreements related to the OCIP, portion of the premiums for comprehensive general liability coverage were placed in a segregated account held by a custodian. The amount reflected as premiums in the financial statements with respect to the OCIP represents the amount transferred to the Trust from that segregated account.

The United States Department of Justice has notified the Project that it is conducting an investigation of the OCIP. The United States Department of Transportation ("US DOT") Inspector General's Office is also conducting an on-going audit of the Plan. The Project intends to update its October 3, 2000

report to the Federal Highway Administration (FHWA) and anticipates making a recommendation over the appropriate level of funding in the OCIP Trust. Management does not expect that the results of these investigations will have a material effect on the financial statements of the Commonwealth.

Claims and Judgements - Changes in the balance of claims and judgements liabilities for the primary government during fiscal 2001 were as follows (amounts in thousands):

	SHORT TERM	LONG TERM	TOTAL
Liability, Beginning of Year	414,437	134,800	549,237
Current Year Claims and Changes in Estimates	918,278	21,800	940,078
Claims Payments	(928,066)	(43,600)	(971,666)
Liability, End of Year	<u>404,649</u>	<u>113,000</u>	<u>517,649</u>

The following amounts were recognized in the following funds as of June 30,

	SHORT TERM	LONG TERM	TOTAL
Claims and Judgements Liability as of 6/30/2001			
General Fund	\$ 27,000	\$ -	\$ 27,000
General Long-Term Debt Account Group		113,000	113,000
Internal Service Funds	377,649		377,649
TOTAL	<u>\$ 404,649</u>	<u>\$ 113,000</u>	<u>\$ 517,649</u>

2001 related to the liability for Claims and Judgements:

Discretely Presented Component Units - The MBTA reserves self-insurance liabilities as claims and judgements as of June 30, 2001. Changes in the self-insurance reserves in fiscal 2001 and 2000 were as follows (amounts in thousands)

	2001	2000
Liability, beginning of year.....	\$60,846	\$ 73,218
Current year claims and changes in estimates.....	90,958	69,973
Claims payments.....	<u>(82,328)</u>	<u>(82,345)</u>
Liability, end of year.....	<u>\$ 69,476</u>	<u>\$ 60,846</u>

Other Contingencies - The Massachusetts Turnpike Authority has obtained health coverage for most employees through various commercial health maintenance organizations. The health coverage for certain other employees, as well as coverage for job-related injuries to all employees, is self-insured by the Authority, with risks managed internally. At December 31, 2000, the accrual for outstanding claims under these programs, including claims incurred but not reported, was approximately \$9,000,000.

Business Type Activities - University of Massachusetts - During fiscal year 1998, UMass Memorial Health Care, Inc., (UMass Memorial) a non-related party was created to merge all of the subsidiaries to the UMass Health System. In connection with this merger, the University of Massachusetts and UMass Memorial have entered into the following agreements:

UMass Memorial is granted the right to occupy portions of the UMass campus for a period of 99 years and UMass Memorial agrees to share responsibility for various capital and operating expenses relating to the occupied premises. UMass Memorial also agreed to contribute to capital improvements to shared facilities.

UMass Memorial agrees to make certain payments to UMass and its related organizations, including: 1) an annual fee of \$12,000,000 (plus an inflation adjustment), for 99 years as long as UMass continues to operate a medical school; 2) a percent of net operating income of UMass Memorial based upon an agreed-upon formula; and 3) a \$31,500,000 contribution plus interest by UMass Memorial to jointly fund and develop a new research facility with UMass. This contribution was made during fiscal year 2001. UMass will own and control the research facility.

UMass will lease certain employees to UMass Memorial or its affiliates during a transition period ending 2008.

Certain academic funds (net assets) held by the Clinical Division as of March 31, 1998 (Departmental Education Funds) will remain assets of UMass and will be held by UMass Memorial for UMass and allocated to each academic department.

UMass is reimbursed by, and reimburses, UMass Memorial for certain services provided and purchased. For the fiscal year ended June 30, 2001, the revenues for services provided to UMass Memorial were \$98,600,000. At June 30, 2001, UMass has recorded a receivable in the amount of \$34,900,000 from UMass Memorial for costs related to shared services, leased employees, and other agreed-upon payments due to UMass. UMass has recorded a payable at June 30, 2001 of \$6,400,000 for amounts due to UMass Memorial for shared services and other agreed-upon payments due to UMass Memorial.

15. SUBSEQUENT EVENTS

Prior to the events of September 11, 2001, the national and local economies had been weakening, reflecting lower business investment, increased unemployment and, recently, a decline in consumer confidence. Reduced economic activity is expected to lower corporate profits, increase job losses and reduce consumer spending, which would result in reduced personal income and sales tax receipts and other tax revenues for the Commonwealth. The events of September 11 increased the risk of a possible recession and a delay in recovery.

On December 5, 2001, the Commonwealth passed its FY02 General Appropriation Act retroactive to July 1, 2001. Previous to its passage, the Commonwealth had been operating on interim spending authorizations. The General Appropriation Act anticipates total budgeted expenditures at \$22.3 billion for the fiscal year.



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REQUIRED SUPPLEMENTARY INFORMATION

Other than Management Discussion and Analysis

Budgeted Funds
Combined Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis - Budget and Actual
Fiscal Year Ended June 30, 2001
(Amounts in thousands)

	Original Budget	Final Budget	Actual	Variance over/under
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Taxes.....	\$ 15,203,800	\$ 15,203,800	\$ 16,074,655	\$ 870,855
Assessments.....	23,651	23,651	92,503	68,852
Federal grants and reimbursements.....	3,797,900	3,797,900	3,974,158	176,258
Departmental.....	1,232,715	1,232,715	1,162,839	(69,876)
Miscellaneous.....	93,234	93,234	285,016	191,782
Total revenues.....	20,351,300	20,351,300	21,589,171	1,237,871
Other financing sources:				
Fringe benefit cost recovery.....	-	-	196,238	196,238
Lottery reimbursements.....	86,492	86,492	85,646	(846)
Lottery distributions.....	809,600	809,600	862,132	52,532
Caseload mitigation.....	-	-	2,021	2,021
Tobacco settlement transfer.....	94,000	94,000	81,506	(12,494)
Operating transfers in.....	225,760	225,760	322,272	96,512
Transfer for transitional escrow.....	-	-	579,215	579,215
Stabilization transfer.....	-	-	51,693	51,693
Federal reimbursement transfer in.....	-	-	1,717	1,717
Transfer for tax reduction.....	-	-	25,930	25,930
Total other financing sources.....	1,215,852	1,215,852	2,208,370	992,518
Total revenues and other financing sources.....	21,567,152	21,567,152	23,797,541	2,230,389
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Legislature.....	78,499	85,172	55,536	29,636
Judiciary.....	566,949	605,737	588,065	17,672
Inspector General.....	2,717	2,468	2,454	14
Governor and Lieutenant Governor.....	6,450	6,366	5,981	385
Secretary of the Commonwealth.....	42,499	44,684	43,431	1,253
Treasurer and Receiver-General.....	307,833	169,540	135,906	33,634
Auditor of the Commonwealth.....	15,487	15,459	15,458	1
Attorney General.....	36,180	36,687	33,722	2,965
Ethics Commission.....	1,549	1,546	1,542	4
District Attorney.....	80,362	81,448	80,792	656
Office of Campaign & Political Finance.....	1,090	1,088	1,079	9
Sheriff's Departments.....	184,301	199,628	196,799	2,829
Disabled Persons Protection Commission.....	1,686	1,682	1,673	9
Board of Library Commissioners.....	7,743	7,715	7,714	1
Comptroller.....	8,192	8,202	8,182	20
Administration and finance.....	1,424,873	1,323,004	1,266,694	56,310
Environmental affairs.....	248,202	256,572	234,642	21,930
Communities and development.....	141,714	159,467	140,841	18,626
Health and human services.....	4,231,548	4,314,486	4,219,092	95,394
Transportation and construction.....	136,317	208,522	199,938	8,584
Education.....	450,684	442,573	385,403	57,170
Higher education.....	1,059,968	1,109,719	1,102,258	7,461
Public safety.....	856,203	889,910	873,560	16,350
Economic development.....	64,504	66,068	51,310	14,758
Elder affairs.....	180,355	222,989	214,036	8,953
Consumer affairs.....	49,771	54,880	51,127	3,753
Labor.....	75,886	79,337	53,843	25,494
Direct local aid.....	4,918,351	4,984,417	4,969,440	14,977
Medicaid.....	4,344,330	4,727,216	4,642,342	84,874
Pension.....	941,484	1,041,483	1,040,121	1,362
Debt service:				
Principal retirement.....	748,008	142,273	128,426	13,847
Interest and fiscal charges.....	625,294	561,759	547,513	14,246
Total expenditures.....	21,839,029	21,852,097	21,298,920	553,177
Other financing uses:				
Fringe benefit cost assessment.....	-	-	72,496	(72,496)
Operating transfers out.....	-	329,044	329,044	-
Sewer rate relief.....	-	53,914	53,914	-
Caseload mitigation.....	-	2,021	2,021	-
Surplus transfer for capital projects.....	-	-	34,462	(34,462)
Stabilization transfer.....	-	-	51,693	(51,693)
Transfer for transitional escrow.....	-	579,215	579,215	-
Transfer for capital projects due to debt defeasance.....	-	624,270	624,270	-
Transfer for tax reduction.....	-	-	25,930	(25,930)
Total other financing uses.....	-	1,588,464	1,773,045	(184,581)
Total expenditures and other financing uses.....	21,839,029	23,440,561	23,071,965	368,596
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	(271,877)	(1,873,409)	725,576	2,598,985
Fund balances (deficit) at beginning of year.....	2,285,441	2,285,441	2,285,441	-
Fund balances (deficits) at end of year.....	\$ 2,013,564	\$ 412,032	\$ 3,011,017	\$ 2,598,985

See notes to combined financial statements - statutory basis.

Note to Required Supplementary Information – Budgetary Reporting

State finance law requires that the Governor and the Legislature approve a balanced budget. The Governor presents an annual budget to the Legislature, which includes estimates of revenues and other financing sources and recommended expenditures and other financing uses. The Legislature, which has full authority to amend the budget, adopts an expenditure budget by appropriating monies at the individual appropriation account level in an annual appropriations act.

Before signing the appropriations act, the Governor may veto or reduce any specific item, subject to legislative override. Further changes to the budget established in the annual appropriations act may be made via supplemental appropriations acts or other legislative acts. These must also be signed by the Governor and are subject to the line item veto.

In addition, Massachusetts General Laws authorize the Secretary of Administration and Finance, with the approval of the Governor, upon determination that available revenues will be insufficient to meet authorized expenditures, to withhold allotments of appropriated funds, which effectively reduce the account's expenditure budget.

The majority of the Commonwealth's appropriations are non-continuing accounts, which lapse at the end of each fiscal year. Others are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for spending in the current fiscal year. In addition, the Legislature may direct that certain revenues be retained and made available for spending within an appropriation. Fringe benefits and other costs that are mandated by state finance law are not itemized in the appropriation process and are not separately budgeted.

Because revenue budgets are not updated subsequent to the original appropriation act, the comparison of the initial revenue budget to the subsequent, and often modified, expenditure budget can be misleading. Also, these financial statements portray fund accounting with gross inflows and outflows, thus creating a discrepancy to separately published budget documents. In conducting the budget process, the Commonwealth excludes those interfund transactions that by their nature have no impact on the combined fund balance of the budgeted funds.

Generally, expenditures may not exceed the level of spending authorized for an appropriation account. However, the Commonwealth is statutorily required to pay debt service, regardless of whether such amounts are appropriated. In addition, certain interfund assessments to allocate fringe benefits and other costs that are mandated by state finance law are not itemized in the appropriation process or separately budgeted.

GAAP require that the originally adopted general appropriation act be in the "original budget column" and the final legally adopted budget, including supplemental appropriations, be reflected in the "final budget" column. The "actual" column contains the statutory inflows and outflows related to budgetary accounts. The "variance" column contains the difference between the "final budget" and the "actual" columns. A positive number in revenues and other financing sources reflects increased revenues over budget. A positive number in expenditures and other financing uses reflects increased revenues over budget. An overall net positive variance of nearly \$2.6 billion on a statutory basis is reflected in the statement.



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OTHER SUPPLEMENTARY INFORMATION

Combining Balance Sheet
Governmental Funds - Combining Schedule - Minor Funds
June 30, 2001
(Amounts in thousands)

	Other Special Revenue	Other Capital Projects	Expendable Trusts Classified as Governmental	Total Other Governmental Funds 2001
ASSETS				
Cash and short-term investments.....	\$ 1,193,711	\$ -	\$ 231,902	\$ 1,425,614
Cash with fiscal agent.....	109,313	-	-	109,313
Restituted investments.....	-	-	-	-
Assets held in trust.....	-	-	-	-
Receivables, net of allowance for uncollectibles:				
Taxes.....	104,320	-	1,011	105,331
Due from federal government.....	532,019	-	19,213	551,232
Other receivables.....	96,750	-	-	96,750
Due from cities and towns.....	-	-	-	-
Due from other funds.....	270	588,134	-	588,404
Due from component units.....	-	1,115	-	1,115
Inventory.....	13,700	-	-	13,700
Total assets.....	<u>\$ 2,050,083</u>	<u>\$ 589,249</u>	<u>\$ 252,126</u>	<u>\$ 2,891,459</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable.....	\$ 390,656	\$ 330,710	\$ 22,050	\$ 743,416
Accrued payroll.....	20,391	876	340	21,607
Compensated absences.....	47,497	831	1,048	49,376
Tax refunds and abatements payable.....	-	-	-	-
Due to other funds.....	443,074	142,120	-	585,194
Due to component units.....	74,486	3,159	-	77,645
Due from federal government.....	-	-	-	-
Deferred revenue.....	43,411	-	238	43,649
Deposit and unearned revenue.....	18,966	-	-	18,966
Claims and judgments.....	-	-	-	-
Bonds, notes payable and certificates of participation.....	-	402,862	-	402,862
Other accrued liabilities.....	96,875	-	4,925	101,800
Total liabilities.....	<u>1,135,357</u>	<u>880,558</u>	<u>28,601</u>	<u>2,044,516</u>
Fund balances (deficits):				
Reserved for continuing appropriations.....	69,399	-	-	69,399
Reserved for tax reduction.....	-	-	-	-
Reserved for Commonwealth stabilization.....	-	-	-	-
Reserved for retirement of indebtedness.....	109,313	-	-	109,313
Reserved for capital projects.....	7,465	128,001	-	135,466
Reserved for central artery workers' compensation.....	728,550	-	-	728,550
Unreserved.....	-	(419,310)	223,525	(195,785)
Fund balances (deficits).....	<u>914,727</u>	<u>(291,309)</u>	<u>223,525</u>	<u>846,943</u>
Total liabilities and fund balances.....	<u>\$ 2,050,084</u>	<u>\$ 589,249</u>	<u>\$ 252,126</u>	<u>\$ 2,891,459</u>

Combining Statement Of Revenues, Expenditures And Changes In Fund Balances

Fiscal Year Ended June 30, 2001

(Amounts in thousands)

	Other Special Revenue	Other Capital Projects	Expendable Trusts Classified as Governmental	Total Other Governmental Funds 2001
Revenues:				
Taxes.....	\$ 1,595,832	\$ -	\$ -	\$ 1,595,832
Assessments.....	512,279	-	82	512,361
Federal grants and reimbursements.....	3,261,224	1,034	20,535	3,282,793
Departmental.....	877,501	147	9,010	886,658
Deferred compensation contributions.....	-	-	-	-
Miscellaneous.....	357,449	4,842	192,633	554,924
Total revenues.....	6,604,285	6,023	222,260	6,832,568
Other financing sources:				
Proceeds of general obligation bonds.....	-	427,295	-	427,295
Proceeds of grant anticipation notes.....	600,009	-	-	600,009
Proceeds of refunding bonds.....	-	-	-	-
Proceeds of capital leases.....	-	-	-	-
Transfers in from primary government.....	-	-	-	-
Transfers in for debt service.....	-	-	-	-
Transfers from component units.....	-	-	-	-
Operating transfers in.....	525,329	1,187,648	24,249	1,737,226
Total other financing sources.....	1,125,338	1,614,943	24,249	2,764,530
Total revenues and other financing sources.....	7,729,623	1,620,966	246,509	9,597,098
Expenditures:				
Current:				
Legislature.....	-	-	-	-
Judiciary.....	716	-	192	908
Inspector General.....	-	-	-	-
Governor and Lieutenant Governor.....	-	-	-	-
Secretary of the Commonwealth.....	973	-	74	1,047
Treasurer and Receiver-General.....	3,957	-	112	4,069
Auditor of the Commonwealth.....	-	-	201	201
Attorney General.....	9,816	-	2,097	11,913
Ethics Commission.....	-	-	-	-
District Attorney.....	15,603	-	4,524	20,127
Office of Campaign and Political Finance.....	-	-	-	-
Sheriff's Departments.....	2,959	-	14	2,973
Disabled Persons Protection Commission.....	25	-	-	25
Board of Library Commissioners.....	3,013	-	-	3,013
Comptroller.....	-	-	-	-
Administration and finance.....	144,537	-	6,064	150,601
Environmental affairs.....	153,040	-	14,557	167,597
Communities and development.....	308,035	-	23,842	331,877
Health and human services.....	2,114,573	-	26,473	2,141,046
Transportation and construction.....	161,127	-	551	161,678
Education.....	643,098	-	1,908	645,006
Higher education.....	4,273	-	2,109	6,382
Public safety.....	310,630	-	2,471	313,101
Economic development.....	35,271	-	312	35,583
Elder affairs.....	53,929	-	18	53,947
Consumer affairs.....	12,443	-	14,364	26,807
Labor.....	153,416	-	42,547	195,963
Medicaid.....	519,947	-	-	519,947
Pension.....	25,310	-	-	25,310
Deferred compensation.....	-	-	-	-
Direct local aid.....	46,528	-	-	46,528
Capital outlay:				
Local aid.....	-	33,801	-	33,801
Capital acquisition and construction.....	-	1,821,061	-	1,821,061
Debt service:				
Debt service.....	-	-	-	-
Total expenditures.....	4,723,219	1,854,862	142,430	6,720,511
Other financing uses:				
Payments to refunded bond escrow agent.....	-	-	-	-
Operating transfers out.....	1,637,787	71,363	91,584	1,800,734
Transfers of appropriations.....	2,350	-	-	2,350
Transfers of bond proceeds.....	-	65,839	-	65,839
Transfers out for debt service.....	1,044,626	-	-	1,044,626
Transfers to component units.....	827,309	15	-	827,324
Total other financing uses.....	3,512,072	137,217	91,584	3,740,873
Total expenditures and other financing uses.....	8,235,291	1,992,079	234,014	10,461,384
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	(505,668)	(371,113)	12,495	(864,286)
Fund balance (deficits) at beginning of year.....	1,420,395	79,804	211,030	1,711,229
Fund balance (deficits) at end of year.....	\$ 914,727	\$ (291,309)	\$ 223,525	\$ 846,943

State College System
Statement of Net Assets - Combining Schedule

Fiscal Year Ended June 30, 2001
(Amounts in thousands)

	Bridgewater State College	Framingham State College	Fitchburg State College	Massachusetts State College of Art	Massachusetts Maritime Academy	Massachusetts College of Liberal Arts
ASSETS:						
Current Assets:						
Cash and cash equivalents	\$ 6,715	\$ 19,561	\$ 9,423	\$ 3,210	\$ 1,381	\$ 1,064
Cash held by State Treasurer	1,472	-	-	1,006	-	615
Short-term investments	-	21	-	488	-	10
Receivables, net of allowance for uncollectible	-	-	-	-	-	-
Federal grants and reimbursements receivable	382	16	439	-	-	-
Loans	657	1	10	640	51	-
Accounts receivables	1,413	107	745	634	407	311
Other current assets	755	40	28	62	281	65
Total Current Assets	11,395	19,746	10,644	6,040	2,120	2,064
Noncurrent Assets:						
Restricted cash and cash equivalents	10,358	2,824	8,316	-	-	38
Cash held by State Treasurer	-	-	-	-	-	257
Cash and held by trustee	-	-	-	-	-	-
Long-term investments	-	-	-	-	1,519	-
Endowment investments	23	6	127	-	-	-
Accounts receivables, net	-	-	-	-	-	-
Loans receivable, net	4,492	1,876	1,724	-	136	780
Capital assets, net of accumulated depreciation	19,007	25,088	30,781	21,356	5,275	8,590
Other long term assets	173	-	-	-	1,420	32
Total Noncurrent Assets	34,054	29,794	40,948	21,356	8,350	9,697
TOTAL ASSETS	\$ 45,449	\$ 49,539	\$ 51,593	\$ 27,396	\$ 10,470	\$ 11,761
LIABILITIES						
Current Liabilities:						
Accounts payable and other liabilities	\$ 3,930	\$ 571	\$ 1,578	\$ 892	\$ 427	\$ 373
Accrued payroll	1,563	2,421	3,017	1,312	1,009	1,095
Compensated absences	2,189	2,202	1,958	829	1,019	1,107
Accrued interest payable	-	-	111	-	-	-
Deferred revenues	1,218	1,552	632	1,054	431	-
Students' deposits and unearned revenues	415	123	-	154	40	530
Funds held for others	-	-	-	-	221	20
Current portion of capital lease	142	22	668	399	-	255
Current portion of bonds, notes payable and other obligations	167	139	-	136	-	40
Total Current Liabilities	9,625	7,029	7,964	4,776	3,148	3,419
Noncurrent Liabilities:						
Compensated absences	485	1,191	1,314	1,064	902	1,102
Due to Federal government - grants	-	-	-	-	-	977
Deferred revenue	-	175	-	-	-	-
Capital lease obligations	576	23	5,854	3,274	97	1,218
Bonds, notes payable and other obligations	7,683	6,126	6,000	1,985	-	240
Other noncurrent liabilities	5,310	2,261	2,219	-	208	203
Total Noncurrent Liabilities	14,054	9,776	15,387	6,323	1,207	3,739
TOTAL LIABILITIES	23,679	16,805	23,352	11,099	4,355	7,158
NET ASSETS						
Invested in capital assets, net of related debt	16,853	18,778	18,259	15,562	4,958	6,837
Restricted for:	-	-	-	-	-	-
Nonexpendable:	-	-	-	-	-	-
Scholarships and fellowships	23	1,592	532	25	-	-
Research	-	-	-	-	-	-
Endowment funds	-	-	-	-	-	20
Expendable:	-	-	-	-	-	-
Scholarships and fellowships	-	1,489	210	395	-	(163)
Research	-	341	-	-	-	-
Instructional and department uses	-	-	-	-	-	-
Loans	906	582	220	720	-	-
Capital Projects	-	-	2,970	-	871	-
Debt Service	602	728	2,687	-	-	-
Other	-	973	4	-	577	-
Unrestricted	3,386	8,252	3,359	(404)	(290)	(2,091)
TOTAL NET ASSETS	\$ 21,770	\$ 32,734	\$ 28,241	\$ 16,297	\$ 6,115	\$ 4,603

State College System
Statement of Net Assets - Combining Schedule

Fiscal Year Ended June 30, 2001
(Amounts in thousands)

	Salem State College	Worcester State College	Westfield State College	TOTAL 2001
ASSETS:				
Current Assets:				
Cash and cash equivalents	\$ 6,394	\$ 1,249	\$ 2,297	\$ 51,292
Cash held by State Treasurer	-	2,761	1,201	7,055
Short-term investments	9,895	-	5,133	15,547
Receivables, net of allowance for uncollectible	-	-	-	-
Federal grants and reimbursements receivable	-	-	-	837
Loans	3	389	192	1,943
Accounts receivables	1,571	470	220	5,877
Other current assets	<u>197</u>	<u>301</u>	<u>1,039</u>	<u>2,768</u>
Total Current Assets	18,059	5,170	10,081	85,319
Noncurrent Assets:				
Restricted cash and cash equivalents	881	-	2	22,419
Cash held by State Treasurer	-	-	-	257
Cash and held by trustee	-	-	-	-
Long-term investments	-	6,253	-	7,772
Endowment investments	293	-	-	449
Accounts receivables, net	-	-	-	-
Loans receivable, net	2,313	643	710	12,673
Capital assets, net of accumulated depreciation	40,490	39,108	15,037	204,732
Other long term assets	<u>-</u>	<u>-</u>	<u>474</u>	<u>2,100</u>
Total Noncurrent Assets	43,976	46,004	16,223	250,403
TOTAL ASSETS	\$ 62,035	\$ 51,174	\$ 26,304	\$ 335,721
LIABILITIES				
Current Liabilities:				
Accounts payable and other liabilities	\$ 3,237	\$ 2,134	\$ 1,866	\$ 15,008
Accrued payroll	4,056	2,701	2,150	19,323
Compensated absences	3,114	1,765	1,633	15,816
Accrued interest payable	146	-	-	257
Deferred revenues	940	-	1,158	6,985
Students' deposits and unearned revenues	186	713	295	2,455
Funds held for others	-	135	51	427
Current portion of capital lease	1,534	-	242	3,263
Current portion of bonds, notes payable and other obligations	<u>16</u>	<u>-</u>	<u>431</u>	<u>928</u>
Total Current Liabilities	13,228	7,447	7,825	64,461
Noncurrent Liabilities:				
Compensated absences	1,348	1,050	1,167	9,623
Due to Federal government - grants	-	-	1,046	2,024
Deferred revenue	-	-	-	175
Capital lease obligations	4,520	-	1,281	16,842
Bonds, notes payable and other obligations	655	-	673	23,362
Other noncurrent liabilities	<u>2,934</u>	<u>-</u>	<u>-</u>	<u>13,134</u>
Total Noncurrent Liabilities	9,456	1,050	4,168	65,160
TOTAL LIABILITIES	22,684	8,497	11,993	129,621
NET ASSETS				
Invested in capital assets, net of related debt	26,881	39,108	12,410	159,645
Restricted for:	-	-	-	-
Nonexpendable:	-	-	-	-
Scholarships and fellowships	7,157	-	2	9,332
Research	-	-	-	-
Endowment funds	-	-	-	20
Expendable:	-	-	-	-
Scholarships and fellowships	190	-	597	2,717
Research	(2)	-	-	339
Instructional and department uses	(32)	-	-	(32)
Loans	740	1,052	-	4,221
Capital Projects	1	-	-	3,842
Debt Service	-	-	-	4,017
Other	732	274	-	2,559
Unrestricted	<u>3,684</u>	<u>2,243</u>	<u>1,303</u>	<u>19,442</u>
TOTAL NET ASSETS	\$ 39,352	\$ 42,677	\$ 14,311	\$ 206,101

State College System

Statement of Revenues, Expenses and Changes in Net Assets

- Combining Schedule

Fiscal Year Ended June 30, 2001

(Amounts in thousands)

	Bridgewater State College	Framingham State College	Fitchburg State College	Massachusetts College of Art	Massachusetts Maritime Academy
Revenues					
Tuition and fess	\$ 22,309	\$ 13,624	\$ 12,924	\$ 9,524	\$ 4,148
Less: Student Financial Aid	<u>2,971</u>	<u>1,225</u>	<u>1,739</u>	<u>2,162</u>	<u>396</u>
Net student fees	19,338	12,399	11,185	7,362	3,752
Federal, State, Local and Private grants and contracts	2,511	526	923	618	302
Sales and services of auxiliary enterprises	9,282	4,928	4,288	2,130	3,849
Income from contract services	-	-	-	-	-
Other sources	<u>78</u>	<u>838</u>	<u>436</u>	<u>1,517</u>	<u>610</u>
Total Operating Revenues	\$ 31,208	\$ 18,691	\$ 16,831	\$ 11,628	\$ 8,513
Expenses					
Instruction	\$ 26,340	\$ 16,398	\$ 19,369	\$ 10,835	\$ 6,292
Research	-	13	21	-	-
Academic support	8,724	5,976	4,904	3,518	2,468
Student services	8,711	4,926	5,753	2,759	3,469
Scholarships and fellowships	3,386	72	5	129	64
Public service	459	-	604	549	-
Operation and maintenance of plant	12,417	5,621	6,094	3,601	2,555
Institutional support	11,268	4,895	6,531	4,258	3,654
Other operating expenses	129	-	-	-	6
Depreciation	1,154	1,318	1,849	1,868	21,626
Auxiliary operations	<u>8,563</u>	<u>3,391</u>	<u>2,591</u>	<u>2,170</u>	<u>3,857</u>
Total Operating Expenses	<u>81,152</u>	<u>42,609</u>	<u>47,723</u>	<u>29,687</u>	<u>43,992</u>
Operating Income (loss)	\$ (49,944)	\$ (23,918)	\$ (30,892)	\$ (18,059)	\$ (35,479)
Nonoperating Revenues (Expenses)					
Investment income	\$ 942	\$ 1,029	\$ 766	\$ 212	\$ (27)
Interest expense	(77)	(5)	(306)	(309)	(29)
Contract revenue	-	-	-	-	-
Transfer in (Out), Net	45,127	23,715	31,257	16,303	13,624
Other nonoperating revenue (expense)	<u>956</u>	<u>347</u>	<u>-</u>	<u>(184)</u>	<u>(33)</u>
Net Nonoperating Revenues	<u>46,947</u>	<u>25,086</u>	<u>31,717</u>	<u>16,023</u>	<u>13,536</u>
Income before other revenues, expenses, gains or losses	\$ (2,997)	\$ 1,168	\$ 826	\$ (2,036)	\$ (21,943)
Capital appropriations	\$ 901	\$ 559	\$ 1,475	\$ -	\$ 415
Capital gifts and grants	199	4,933	1,036	-	-
Private gifts for endowment purposes	-	40	18	-	871
Other additions and (deductions)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (decrease) in Net Assets	<u>(1,897)</u>	<u>6,701</u>	<u>3,354</u>	<u>(2,036)</u>	<u>(20,658)</u>
Net Assets					
Net Assets - Beginning of Year	23,667	26,034	24,887	18,334	26,773
Cumulative effect of change in accounting principle	-	-	-	-	-
Net Assets - End of Year	<u>\$ 21,770</u>	<u>\$ 32,734</u>	<u>\$ 28,241</u>	<u>\$ 16,297</u>	<u>\$ 6,115</u>

State College System

Statement of Revenues, Expenses and Changes in Net Assets

- Combining Schedule

Fiscal Year Ended June 30, 2001

(Amounts in thousands)

	Massachusetts College of Liberal Arts	Salem State College	Worcester State College	Westfield State College	TOTALS 2001
Revenues					
Tuition and fess	\$ 11,099	\$ 19,336	\$ 12,281	\$ 13,613	\$ 118,858
Less: Student Financial Aid	<u>1,640</u>	<u>6,056</u>	<u>1,839</u>	<u>2,026</u>	<u>20,056</u>
Net student fees	9,459	13,280	10,442	11,587	98,802
Federal, State, Local and Private grants and contracts	618	3,223	1,266	1,504	11,491
Sales and services of auxiliary enterprises	120	5,141	2,311	8,503	40,552
Income from contract services	-	-	-	-	-
Other sources	<u>31</u>	<u>572</u>	<u>725</u>	<u>701</u>	<u>5,508</u>
Total Operating Revenues	\$ 10,227	\$ 22,216	\$ 14,744	\$ 22,294	\$ 156,352
Expenses					
Instruction	\$ 7,534	\$ 30,159	\$ 18,729	\$ 16,722	\$ 152,378
Research	-	-	-	-	34
Academic support	3,273	10,503	3,351	3,572	46,290
Student services	4,567	6,779	5,294	5,656	47,915
Scholarships and fellowships	252	594	1,756	280	6,537
Public service	11	416	365	347	2,752
Operation and maintenance of plant	3,034	6,815	6,190	6,125	52,451
Institutional support	3,956	10,807	4,757	4,678	54,806
Other operating expenses	-	-	-	-	135
Depreciation	507	3,433	1,279	3,022	36,057
Auxiliary operations	<u>3,055</u>	<u>3,523</u>	<u>2,443</u>	<u>8,570</u>	<u>38,163</u>
Total Operating Expenses	26,190	73,030	44,164	48,972	437,519
Operating Income (loss)	\$ (15,963)	\$ (50,814)	\$ (29,421)	\$ (26,678)	\$ (281,166)
Nonoperating Revenues (Expenses)					
Investment income	\$ (4)	\$ (180)	\$ 791	\$ 689	\$ 4,218
Interest expense	(59)	(439)	-	(143)	(1,367)
Contract revenue	-	-	-	-	-
Transfer in (Out), Net	16,474	49,663	27,166	25,717	249,045
Other nonoperating revenue (expense)	-	72	28	-	1,187
Net Nonoperating Revenues	16,410	49,116	27,985	26,262	253,082
Income before other revenues, expenses, gains or losses	\$ 447	\$ (1,698)	\$ (1,436)	\$ (416)	\$ (28,084)
Capital appropriations	\$ 609	\$ 2,595	\$ 8,584	\$ 586	\$ 15,723
Capital gifts and grants	-	-	-	-	6,168
Private gifts for endowment purposes	-	-	-	-	928
Other additions and (deductions)	-	-	-	-	-
Increase (decrease) in Net Assets	1,056	897	7,148	170	(5,264)
Net Assets					
Net Assets - Beginning of Year	3,546	38,455	35,529	41,080	238,304
Cumulative effect of change in accounting principle	-	-	-	(26,939)	(26,939)
Net Assets - End of Year	\$ 4,603	\$ 39,352	\$ 42,677	\$ 14,311	\$ 206,101

Community College System
Statement of Net Assets - Combining Schedule

Fiscal Year Ended June 30, 2001

(Amounts in thousands)

	Berkshire Community College	Bunker Hill Community College	Bristol Community College	Cape Cod Community College	Greenfield Community College	Holyoke Community College	Massasoit Community College	Massachusetts Bay Community College
ASSETS:								
Current Assets:								
Cash and cash equivalents	\$ 2,041	\$ 229	\$ 1,510	\$ 2,843	\$ 2,285	\$ 3,936	\$ 1,811	\$ 4,626
Cash held by State Treasurer	944	1,113	566	1,173	794	5,906	3,071	1,256
Short-term investments	694	6,995	3,631	281	-	1,277	-	-
Receivables, net of allowance for uncollectible	-	-	-	-	-	-	-	-
Federal grants and reimbursements receivable	-	-	-	-	-	-	-	-
Loans	-	47	-	-	-	-	-	4
Accounts receivables	304	599	1,141	268	635	1,221	1,735	2,896
Other current assets	316	562	46	21	147	230	695	20
Total Current Assets	4,299	9,544	6,894	4,586	3,861	12,571	7,312	8,802
Noncurrent Assets:								
Restricted cash and cash equivalents	101	84	13	-	222	-	-	-
Cash held by State Treasurer	110	-	139	-	-	-	734	-
Cash and held by trustee	-	-	-	-	-	-	-	-
Long-term investments	35	-	-	20	10	2,181	-	-
Endowment investments	-	-	-	-	-	-	-	-
Accounts receivables, net	-	-	-	-	-	-	-	-
Loans receivable, net	-	69	334	-	366	-	-	-
Capital assets, net of accumulated depreciation	3,943	6,502	15,439	4,849	8,843	9,757	9,572	6,429
Other long term assets	-	-	-	-	-	-	-	135
Total Noncurrent Assets	4,189	6,655	15,925	4,869	9,441	11,938	10,306	6,565
Total Assets	\$ 8,487	\$ 16,199	\$ 22,819	\$ 9,455	\$ 13,302	\$ 24,509	\$ 17,618	\$ 15,367
LIABILITIES								
Current Liabilities:								
Accounts payable and other liabilities	\$ 709	\$ 2,298	\$ 1,022	\$ 793	\$ 1,069	\$ 1,254	\$ 1,612	\$ 3,401
Accrued payroll	1,311	1,225	1,800	1,397	650	2,908	2,748	1,596
Compensated absences	622	1,108	1,258	862	473	1,095	1,374	592
Accrued interest payable	-	-	-	-	-	-	-	-
Deferred revenues	-	945	-	239	494	-	-	673
Students' deposits and unearned revenues	301	1,353	388	816	127	445	430	-
Funds held for others	2	175	36	-	-	18	-	-
Current portion of capital lease	35	321	91	300	108	26	150	465
Current portion of bonds, notes payable and other obligations	47	-	-	-	-	-	-	-
Total Current Liabilities	3,027	7,424	4,595	4,407	2,920	5,746	6,313	6,727
Noncurrent Liabilities:								
Compensated absences	935	1,220	1,130	952	844	1,626	1,988	648
Due to Federal government - grants	-	160	460	-	407	50	-	-
Deferred revenue	-	-	-	-	-	-	-	-
Capital lease obligations	62	177	83	1,989	343	-	564	4,710
Bonds, notes payable and other obligations	-	-	-	-	-	-	-	-
Other noncurrent liabilities	-	-	-	-	-	-	-	-
Total Noncurrent Liabilities	997	1,557	1,672	2,941	1,594	1,676	2,552	5,357
Total Liabilities	4,024	8,981	6,267	7,348	4,514	7,422	8,866	12,085
NET ASSETS								
Invested in capital assets, net of related debt	3,799	6,005	15,265	2,560	8,391	9,681	8,858	5,431
Restricted for:	-	-	-	-	-	-	-	-
Nonexpendable:	-	-	-	-	-	-	-	-
Scholarships and fellowships	-	-	-	-	-	-	-	-
Research	-	-	-	-	-	-	-	-
Endowment funds	28	-	-	20	-	-	-	-
Expendable:	-	-	-	-	-	-	-	-
Scholarships and fellowships	119	-	33	-	74	147	-	430
Research	-	-	-	-	-	-	592	-
Instructional and department uses	-	-	33	89	-	-	-	-
Loans	-	40	(113)	-	17	-	-	4
Capital Projects	-	-	-	-	-	492	-	-
Debt Service	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Unrestricted	517	1,173	1,335	(561)	305	6,768	(697)	(2,582)
Total Net Assets	\$ 4,463	\$ 7,218	\$ 16,552	\$ 2,107	\$ 8,788	\$ 17,087	\$ 8,752	\$ 3,282

Community College System
Statement of Net Assets - Combining Schedule

Fiscal Year Ended June 30, 2001

(Amounts in thousands)

	Middlesex Community College	Mount Wachusett Community College	Northern Essex Community College	North Shore Community College	Quinsigamond Community College	Roxbury Community College	Springfield Technical Community College	TOTALS 2001
ASSETS:								
Current Assets:								
Cash and cash equivalents	\$ 491	\$ 1,386	\$ 1,013	\$ 2,951	\$ 1,306	\$ 726	\$ 8,588	\$ 35,744
Cash held by State Treasurer	33	1,607	1,586	1,248	1,402	1,425	2,260	24,383
Short-term investments	4,287	87	1,529	-	2,580	-	-	21,360
Receivables, net of allowance for uncollectible	-	-	-	-	-	-	-	-
Federal grants and reimbursements receivable	-	-	-	239	155	-	916	1,310
Loans	-	-	93	4	127	161	-	436
Accounts receivables	3,751	651	887	425	560	367	505	15,946
Other current assets	-	2	21	798	271	-	585	3,714
Total Current Assets	8,562	3,733	5,129	5,666	6,400	2,679	12,855	102,893
Noncurrent Assets:								
Restricted cash and cash equivalents	4,024	56	-	-	-	-	-	4,499
Cash held by State Treasurer	-	81	-	-	-	-	-	1,065
Cash and held by trustee	-	-	-	-	-	-	-	-
Long-term investments	-	-	-	8,339	-	-	-	10,585
Endowment investments	-	-	-	-	-	-	-	-
Accounts receivables, net	-	-	-	-	-	-	-	-
Loans receivable, net	568	0	-	-	-	-	-	1,337
Capital assets, net of accumulated depreciation	40,707	2,935	12,218	29,719	5,545	42,577	26,554	225,589
Other long term assets	317	-	-	-	231	-	-	684
Total Noncurrent Assets	45,616	3,073	12,218	38,058	5,776	42,577	26,554	243,759
Total Assets	\$ 54,177	\$ 6,805	\$ 17,347	\$ 43,724	\$ 12,176	\$ 45,256	\$ 39,409	\$ 346,652
LIABILITIES								
Current Liabilities:								
Accounts payable and other liabilities	\$ 2,924	\$ 900	\$ 673	\$ 2,286	\$ 2,355	\$ 1,427	\$ 3,768	\$ 26,492
Accrued payroll	1,524	1,516	2,793	1,299	1,703	874	1,616	24,960
Compensated absences	1,562	97	1,536	1,575	1,019	486	1,792	15,452
Accrued interest payable	-	-	-	-	-	-	-	-
Deferred revenues	-	-	-	250	107	-	930	3,638
Students' deposits and unearned revenues	247	227	-	480	478	358	664	6,314
Funds held for others	271	186	-	161	-	-	143	993
Current portion of capital lease	457	1	-	66	617	43	969	3,651
Current portion of bonds, notes payable and other obligations	190	7	226	170	-	-	-	640
Total Current Liabilities	7,176	2,934	5,229	6,288	6,280	3,188	9,884	82,138
Noncurrent Liabilities:								
Compensated absences	1,696	1,988	1,322	1,404	1,113	623	2,223	19,710
Due to Federal government - grants	269	63	-	-	-	-	-	1,410
Deferred revenue	-	-	-	-	-	-	-	-
Capital lease obligations	1,358	321	-	114	878	39	3,585	14,223
Bonds, notes payable and other obligations	8,795	108	52	14,868	2,500	-	-	26,324
Other noncurrent liabilities	-	177	187	225	-	-	1,315	1,904
Total Noncurrent Liabilities	12,118	2,658	1,561	16,611	4,491	662	7,123	63,570
Total Liabilities	19,294	5,592	6,790	22,899	10,770	3,850	17,007	145,709
NET ASSETS								
Invested in capital assets, net of related debt	33,569	2,313	11,940	21,994	4,050	42,495	20,824	197,174
Restricted for:	-	-	-	-	-	-	-	-
Nonexpendable:	-	-	-	-	-	-	-	-
Scholarships and fellowships	-	-	-	-	-	-	-	-
Research	-	-	-	-	-	-	-	-
Endowment funds	-	-	-	-	-	-	-	48
Expendable:	-	-	-	-	-	-	-	-
Scholarships and fellowships	-	45	380	-	480	152	348	2,208
Research	-	-	-	-	-	-	-	592
Instructional and department uses	-	-	-	-	-	-	-	121
Loans	322	-	93	-	140	161	-	663
Capital Projects	-	-	-	142	-	-	-	634
Debt Service	-	-	-	-	-	-	-	-
Other	609	-	-	-	-	-	-	609
Unrestricted	384	(1,145)	(1,855)	(1,311)	(3,264)	(1,402)	1,230	(1,106)
Total Net Assets	\$ 34,884	\$ 1,213	\$ 10,557	\$ 20,825	\$ 1,406	\$ 41,406	\$ 22,402	\$ 200,943

Community College System

Statement of Revenues, Expenses and Changes in Net Assets

Combining Schedule

Fiscal Year Ended June 30, 2001

(Amounts in thousands)

	Berkshire Community College	Bunker Hill Community College	Bristol Community College	Cape Cod Community College	Greenfield Community College	Holyoke Community College	Massasoit Community College	Massachusetts Bay Community College
Revenues								
Tuition and fess	\$ 4,590	\$ 8,901	\$ 7,227	\$ 5,351	\$ 3,899	\$ 7,751	\$ 9,818	\$ 10,372
Less: Student Financial Aid	<u>1,080</u>	<u>1,454</u>	<u>2,122</u>	<u>1,705</u>	<u>1,073</u>	<u>1,649</u>	<u>2,918</u>	<u>3,218</u>
Net student fees	3,510	7,447	5,105	3,646	2,825	6,102	6,900	7,154
Federal, State, Local and Private grants and contracts	2,853	6,998	6,154	3,242	2,384	5,343	3,492	3,367
Sales and services of auxiliary enterprises	1,131	536	-	179	866	1,505	805	176
Income from contract services	-	-	-	-	-	-	-	-
Other sources	<u>267</u>	<u>543</u>	<u>558</u>	<u>776</u>	<u>133</u>	<u>717</u>	<u>748</u>	<u>133</u>
Total Operating Revenues	7,761	15,525	11,817	7,844	6,209	13,667	11,946	10,830
Expenses								
Instruction	9,841	16,252	16,263	10,558	6,687	17,485	18,285	11,235
Research	-	-	-	-	23	-	-	-
Academic support	1,603	4,871	4,698	2,563	2,865	2,330	4,087	5,623
Student services	2,432	6,894	3,645	3,209	1,766	5,392	5,012	3,445
Scholarships and fellowships	1,235	5,023	2,035	1,142	1,544	2,406	1,658	1,065
Public service	-	-	-	468	443	110	521	-
Operation and maintenance of plant	1,677	4,372	3,425	2,143	2,017	2,788	3,229	3,351
Institutional support	3,011	4,603	4,665	2,421	2,615	4,691	5,409	4,116
Other operating expenses	-	-	-	-	-	-	-	-
Depreciation	383	844	1,175	511	300	845	1,739	632
Auxiliary operations	<u>1,112</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>809</u>	<u>1,870</u>	<u>796</u>	<u>-</u>
Total Operating Expenses	21,294	42,860	35,906	23,015	19,071	37,918	40,737	29,467
Operating Income (loss)	\$ (13,532)	\$ (27,335)	\$ (24,090)	\$ (15,172)	\$ (12,863)	\$ (24,251)	\$ (28,791)	\$ (18,637)
Nonoperating Revenues (Expenses)								
Investment income	\$ 162	\$ 442	\$ 330	\$ 160	\$ 125	\$ 35	\$ 312	\$ 48
Interest expense	(13)	(50)	(9)	(106)	(30)	(3)	-	-
Contract revenue	-	-	-	-	-	-	-	-
Transfer in (Out), Net	12,841	25,636	21,613	14,565	11,974	23,957	26,308	18,418
Other nonoperating revenue (expense)	<u>-</u>	<u>(56)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>73</u>	<u>-</u>
Net Nonoperating Revenues	12,990	25,971	# 21,934	14,619	12,068	23,988	26,693	18,465
Income before other revenues, expenses, gains or losses	\$ (542)	\$ (1,364)	\$ (2,156)	\$ (552)	\$ (794)	\$ (263)	\$ (2,099)	\$ (172)
Capital appropriations	\$ 558	\$ 1,036	\$ 10,054	\$ 1,116	\$ 246	\$ 496	\$ 610	\$ -
Capital gifts and grants	-	-	-	-	-	-	-	-
Private gifts for endowment purposes	-	-	-	-	-	-	-	-
Other additions and (deductions)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (decrease) in Net Assets	15	(328)	7,898	564	(548)	233	(1,489)	(172)
Net Assets								
Net Assets - Beginning of Year	4,448	7,546	8,653	1,543	9,336	16,854	10,241	3,454
Cumulative effect of change in accounting principle	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets - End of Year	\$ 4,463	\$ 7,218	\$ 16,552	\$ 2,107	\$ 8,788	\$ 17,087	\$ 8,752	\$ 3,282

Community College System

Statement of Revenues, Expenses and Changes in Net Assets

Combining Schedule

Fiscal Year Ended June 30, 2001

(Amounts in thousands)

	Middlesex Community College	Mount Wachusett Community College	Northern Essex Community College	North Shore Community College	Quinsigamond Community College	Roxbury Community College	Springfield Technical Community College	TOTALS 2001
Revenues								
Tuition and fess	\$ 11,080	\$ 4,998	\$ 9,387	\$ 10,221	\$ 7,355	\$ 3,538	\$ 9,361	\$ 113,850
Less: Student Financial Aid	<u>2,877</u>	<u>1,362</u>	<u>5,756</u>	<u>2,973</u>	<u>2,558</u>	<u>2,137</u>	<u>3,026</u>	<u>35,911</u>
Net student fees	8,203	3,636	3,631	7,248	4,797	1,401	6,335	77,939
Federal, State, Local and Private grants and contracts	6,834	4,824	6,067	6,106	4,265	4,624	9,360	75,914
Sales and services of auxiliary enterprises	291	595	-	1,968	2,463	227	2,622	13,366
Income from contract services	-	-	-	-	-	-	-	-
Other sources	<u>1,160</u>	<u>686</u>	<u>928</u>	<u>99</u>	<u>800</u>	<u>4</u>	<u>3,230</u>	<u>10,781</u>
Total Operating Revenues	16,489	9,740	10,625	15,421	12,325	6,256	21,546	178,000
Expenses								
Instruction	16,620	10,112	13,213	18,061	14,534	7,684	20,100	206,931
Research	-	-	-	-	-	-	-	23
Academic support	5,630	4,021	3,806	5,810	3,456	1,076	6,916	59,356
Student services	6,929	4,147	5,428	5,121	3,624	1,675	5,787	64,505
Scholarships and fellowships	1,310	1,136	-	1,964	1,883	2,845	3,438	28,685
Public service	2,987	360	265	262	-	1,520	-	6,936
Operation and maintenance of plant	4,302	2,218	2,595	3,839	1,884	1,814	4,758	44,414
Institutional support	6,200	3,132	6,970	7,426	4,831	4,337	6,280	70,706
Other operating expenses	-	-	-	-	-	-	3,153	3,153
Depreciation	3,184	777	1,160	1,543	651	1,534	3,487	18,765
Auxiliary operations	<u>-</u>	<u>752</u>	<u>-</u>	<u>1,831</u>	<u>2,274</u>	<u>-</u>	<u>3,283</u>	<u>12,727</u>
Total Operating Expenses	47,162	26,654	33,436	45,857	33,137	22,486	57,202	516,202
Operating Income (loss)	\$ (30,674)	\$ (16,914)	\$ (22,810)	\$ (30,436)	\$ (20,812)	\$ (16,229)	\$ (35,655)	\$ (338,202)
Nonoperating Revenues (Expenses)								
Investment income	\$ 374	\$ 83	\$ 120	\$ 432	\$ 102	\$ 19	\$ 446	\$ 3,187
Interest expense	-	(37)	(31)	(388)	-	-	(275)	(942)
Contract revenue	-	-	-	-	-	-	-	-
Transfer in (Out), Net	26,437	16,124	21,752	27,880	20,090	14,224	32,714	314,532
Other nonoperating revenue (expense)	<u>518</u>	<u>-</u>	<u>-</u>	<u>(4)</u>	<u>40</u>	<u>-</u>	<u>-</u>	<u>571</u>
Net Nonoperating Revenues	27,329	16,170	21,841	27,919	20,232	14,243	32,885	317,347
Income before other revenues, expenses, gains or losses	\$ (3,345)	\$ (744)	\$ (970)	\$ (2,517)	\$ (580)	\$ (1,986)	\$ (2,770)	\$ (20,854)
Capital appropriations	\$ (511)	\$ 434	\$ -	\$ 400	\$ 508	\$ 150	\$ 186	\$ 15,283
Capital gifts and grants	-	-	-	-	-	-	-	-
Private gifts for endowment purposes	-	-	-	-	-	-	-	-
Other additions and (deductions)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (decrease) in Net Assets	(3,856)	(310)	(970)	(2,116)	(72)	(1,836)	(2,584)	(5,571)
Net Assets								
Net Assets - Beginning of Year	38,740	1,523	11,527	22,941	1,478	43,242	24,987	206,514
Cumulative effect of change in accounting principle	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets - End of Year	\$ 34,884	\$ 1,213	\$ 10,557	\$ 20,825	\$ 1,406	\$ 41,406	\$ 22,402	\$ 200,943

Non-Major Component Units

Statement of Net Assets

June 30, 2001

(Amounts in thousands)

	Berkshire Regional Transit Authority	Brockton Area Transit Authority	Cape Ann Transportation Authority	Cape Cod Regional Transit Authority	Franklin Regional Transit Authority	Greater Attleboro/ Taunton Regional Authority	Greenfield Montague Transportation Area	Lowell Regional Transit Authority	Martha's Vineyard Transit Authority	Merrimack Valley Regional Transit Authority
Assets										
Current assets:										
Cash and cash equivalents.....	\$ 240	\$ 1,375	\$ 165	\$ 726	\$ 26	\$ 586	\$ 182	\$ 1,698	\$ 467	\$ 2,647
Short term investments.....	-	-	-	-	-	-	-	-	-	-
Receivables, net of allowance for uncollectibles:										
Federal grants and reimbursement receivable	680	415	222	533	268	825	260	857	125	382
Loans.....	-	-	-	-	-	-	-	-	-	-
Other receivables.....	118	128	3,754	265	137	1,891	89	452	44	129
Due from cities and towns	741	2,207	383	932	160	885	134	1,534	569	-
Due from primary government.....	1,983	4,670	1,056	2,529	312	2,367	374	2,809	2,723	6,357
Inventory.....	-	-	-	-	-	-	34	-	-	-
Other current assets.....	256	19	1,702	47	11	99	-	-	-	6
Total current assets.....	4,018	8,814	7,282	5,032	914	6,653	1,073	7,350	3,928	9,521
Noncurrent assets:										
Cash and cash equivalents - restricted.....	-	-	-	-	-	-	-	-	-	102
Long-Term investments.....	-	-	-	-	-	-	-	-	-	-
Restricted Investments.....	-	-	-	-	-	-	-	-	-	-
Accounts receivables, net.....	-	-	-	-	-	-	-	-	-	-
Loans receivables, net.....	-	-	-	-	-	-	-	-	-	-
Capital assets, net of accumulated depreciation.....	1,743	11,822	6,362	7,157	875	9,615	1,229	31,946	2,745	14,149
Other noncurrent assets.....	-	-	-	-	-	-	-	-	1,755	-
Total noncurrent assets.....	1,743	11,822	6,362	7,157	875	9,615	1,229	31,946	4,500	14,251
Total assets.....	\$ 5,761	\$ 20,636	\$ 13,644	\$ 12,189	\$ 1,789	\$ 16,268	\$ 2,302	\$ 39,296	\$ 8,428	\$ 23,772
Liabilities										
Current Liabilities:										
Accounts payable and other liabilities.....	\$ 221	\$ 1,220	\$ 4,689	\$ 538	\$ 98	\$ 2,926	\$ 103	\$ 1,009	\$ 994	\$ 918
Accrued payroll.....	-	-	-	-	-	-	-	-	-	-
Compensated absences.....	-	-	-	-	-	-	-	-	-	-
Accrued interest payable.....	178	357	60	221	52	-	-	169	-	11
Due to primary government.....	-	-	-	-	-	-	-	155	-	-
Due to federal government.....	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	-	-	78	-	-	-	-	-	-
Capital leases.....	-	-	-	-	-	-	-	-	-	-
Bonds, notes payable and other obligations.....	3,263	-	1,325	4,552	739	-	550	-	-	8,586
Total current liabilities.....	3,662	1,577	6,074	5,389	889	2,926	653	1,333	994	9,515
Noncurrent liabilities:										
Compensated absences.....	-	-	-	-	-	-	-	30	-	-
Claims and judgments.....	-	-	-	-	-	-	-	-	-	-
Deferred revenue.....	-	-	-	-	-	-	-	-	-	-
Capital leases.....	-	-	-	-	-	-	-	-	-	-
Bonds, notes payable and other obligations.....	-	7,300	1,200	-	-	3,401	-	3,850	2,857	-
Other noncurrent liabilities.....	-	-	-	-	-	-	-	-	-	-
Total noncurrent liabilities.....	-	7,300	1,200	-	-	3,401	-	3,880	2,857	-
Total liabilities.....	3,662	8,877	7,274	5,389	889	6,327	653	5,213	3,851	9,515
Net assets										
Invested in capital assets, net of related debt.....	1,988	10,128	6,362	6,387	875	9,615	1,635	31,946	4,500	14,149
Restricted for:										
Investment programs.....	-	-	-	-	-	-	-	-	-	-
Other purpose.....	111	-	-	-	25	131	26	2,135	-	-
Unrestricted.....	-	1,631	8	413	-	195	(12)	2	77	108
Total net assets.....	\$ 2,099	\$ 11,759	\$ 6,370	\$ 6,800	\$ 900	\$ 9,941	\$ 1,649	\$ 34,083	\$ 4,577	\$ 14,257

Non-Major Component Units

Statement of Net Assets

June 30, 2001

(Amounts in thousands)

	Montachusett Regional Transit Authority	Nantucket Regional Transit Authority	Pioneer Valley Transit Authority	Southeastern Regional Transit Authority	Worcester Regional Transit Authority	Massachusetts Convention Center Authority	Massachusetts Development Finance Agency	Massachusetts Technology Park Corporation	Commonwealth Corporation	Commonwealth Zoological Corporation
Assets										
Current assets:										
Cash and cash equivalents.....	\$ 449	\$ 60	\$ 5,528	\$ 817	\$ 2,333	\$ 5,033	\$ 162,677	\$ 124,163	\$ 7,886	\$ 485
Short term investments.....	-	-	-	-	-	-	20,357	-	-	6,112
Receivables, net of allowance for uncollectibles:										
Federal grants and reimbursement receivable	1,876	200	890	298	1,971	-	-	-	8,954	-
Loans.....	-	-	-	-	-	-	7,879	-	5,350	-
Other receivables.....	3,368	1	878	398	4,394	826	2,710	6,378	131	382
Due from cities and towns	1,472	216	6,111	1,594	-	-	-	-	-	-
Due from primary government.....	4,513	453	13,813	4,339	7,754	29,018	12,568	45	362	-
Inventory.....	-	-	-	365	-	-	-	-	-	74
Other current assets.....	775	-	343	56	30	331	6,137	198	30	307
Total current assets.....	12,453	930	27,563	7,867	16,482	35,208	212,328	130,784	22,713	7,360
Noncurrent assets:										
Cash and cash equivalents - restricted.....	-	-	1,031	-	-	16,888	-	-	-	-
Long-Term investments.....	-	-	-	-	-	1,125	-	-	75	-
Restricted Investments.....	-	-	-	-	-	-	13,055	-	-	-
Accounts receivables, net.....	-	-	-	-	-	-	2,210	-	-	50
Loans receivables, net.....	-	-	-	-	-	-	86,252	6,600	4,764	-
Capital assets, net of accumulated depreciation.....	13,131	1,642	39,088	13,025	47,684	319,063	74,823	14,124	133	8,110
Other noncurrent assets.....	-	-	79	-	55	778	599	-	-	-
Total noncurrent assets.....	13,131	1,642	40,198	13,025	47,739	337,854	176,939	20,724	4,972	8,160
Total assets.....	\$ 25,584	\$ 2,572	\$ 67,761	\$ 20,892	\$ 64,221	\$ 373,062	\$ 389,267	\$ 151,508	\$ 27,685	\$ 15,520
Liabilities										
Current Liabilities:										
Accounts payable and other liabilities.....	\$ 2,442	\$ 231	\$ 3,815	\$ 863	\$ 1,902	\$ 25,382	\$ 10,341	\$ 3,058	\$ 10,171	\$ 928
Accrued payroll.....	-	-	432	-	-	-	-	-	389	101
Compensated absences.....	-	-	-	-	-	-	264	-	275	210
Accrued interest payable.....	63	-	-	207	130	8,322	2,474	-	-	-
Due to primary government.....	-	-	-	-	-	-	3,750	-	-	-
Due to federal government.....	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	24	-	59	100	1,933	-	6,600	4,673	-
Capital leases.....	-	-	-	-	524	-	16	-	-	4
Bonds, notes payable and other obligations.....	9,900	690	20,000	6,000	14,500	11,054	16,859	-	-	65
Total current liabilities.....	12,405	945	24,247	7,129	17,156	46,691	33,704	9,658	15,508	1,308
Noncurrent liabilities:										
Compensated absences.....	-	-	-	688	-	-	-	-	-	130
Claims and judgments.....	-	-	2,867	-	-	-	-	-	-	-
Deferred revenue.....	-	-	-	-	-	-	9,837	-	-	10
Capital leases.....	-	-	-	-	3,084	-	-	-	-	-
Bonds, notes payable and other obligations.....	-	-	2,468	-	-	46,538	77,501	-	-	459
Other noncurrent liabilities.....	-	-	-	-	-	24,349	8,233	-	-	-
Total noncurrent liabilities.....	-	-	5,335	688	3,084	70,887	95,571	-	-	599
Total liabilities.....	12,405	945	29,582	7,817	20,240	117,578	129,275	9,658	15,508	1,907
Net assets										
Invested in capital assets, net of related debt.....	14,543	1,627	38,179	13,075	44,150	239,681	29,608	14,124	133	7,648
Restricted for:										
Investment programs.....	-	-	-	-	-	-	-	-	11,016	5,961
Other purpose.....	-	-	-	-	(169)	-	31,383	125,931	-	153
Unrestricted.....	(1,364)	-	-	-	-	15,803	199,001	1,795	1,028	(149)
Total net assets.....	\$ 13,179	\$ 1,627	\$ 38,179	\$ 13,075	\$ 43,981	\$ 255,484	\$ 259,992	\$ 141,850	\$ 12,177	\$ 13,613

Non-Major Component Units

Statement of Net Assets

June 30, 2001

(Amounts in thousands)

	Community Economic Development Assistance Corporation	Massachusetts Community Development Finance Corporation	Massachusetts Housing Partnership	Massachusetts International Trade Council, Inc.	Route 3 North Transportation Improvement Association	Massachusetts Corporation for Education Telecommunication	Massachusetts State College Building Authority	Non-Major Component Units Total
Assets								
Current assets:								
Cash and cash equivalents.....	\$ 1,039	\$ 2,683	\$ 50,290	\$ 734	\$ -	\$ 337	\$ 10,772	\$ 383,398
Short term investments.....	2,360	2,926	1,000	-	-	-	61,034	93,789
Receivables, net of allowance for uncollectibles:								
Federal grants and reimbursement receivable	52	-	-	-	-	517	-	19,325
Loans.....	734	30	9,294	-	-	-	-	23,287
Other receivables.....	144	188	-	122	-	196	926	28,049
Due from cities and towns	37	-	468	-	-	-	-	17,443
Due from primary government.....	14	-	791	100	888	-	-	99,838
Inventory.....	-	-	-	-	-	-	-	473
Other current assets.....	7	27	-	7	-	707	177	11,272
Total current assets.....	4,387	5,854	61,843	963	888	1,757	72,909	676,874
Noncurrent assets:								
Cash and cash equivalents - restricted.....	21,794	234	-	-	349,694	-	790	390,533
Long-Term investments.....	-	9,618	-	-	-	-	33,075	43,893
Restricted Investments.....	-	-	-	-	-	-	-	13,055
Accounts receivables, net.....	-	-	6,006	-	-	-	-	8,266
Loans receivables, net.....	73,427	-	114,968	-	-	-	-	286,011
Capital assets, net of accumulated depreciation.....	60	76	75	71	65,332	-	56,458	740,538
Other noncurrent assets.....	8	14	72	-	7,334	-	1,616	12,310
Total noncurrent assets.....	95,289	9,942	121,121	71	422,360	-	91,940	1,494,607
Total assets.....	\$ 99,676	\$ 15,796	\$ 182,964	\$ 1,034	\$ 423,248	\$ 1,757	\$ 164,849	\$ 2,171,481
Liabilities								
Current Liabilities:								
Accounts payable and other liabilities.....	\$ 3,265	\$ 171	\$ 333	\$ 31	\$ 2,886	\$ 1,035	\$ 8,433	\$ 88,003
Accrued payroll.....	-	-	343	5	-	157	-	1,427
Compensated absences.....	78	-	-	-	-	-	51	878
Accrued interest payable.....	-	-	1,395	-	888	-	-	14,527
Due to primary government.....	-	-	-	-	-	-	-	3,905
Due to federal government.....	-	-	-	-	-	165	-	165
Deferred revenue	593	-	-	-	-	-	-	14,060
Capital leases.....	-	-	-	3	-	-	-	547
Bonds, notes payable and other obligations.....	11,133	928	8,165	-	-	-	3,510	121,819
Total current liabilities.....	15,069	1,099	10,236	39	3,774	1,357	11,994	245,331
Noncurrent liabilities:								
Compensated absences.....	-	-	-	-	-	-	17	865
Claims and judgments.....	-	-	-	-	-	-	-	2,867
Deferred revenue.....	-	-	35,005	-	-	-	-	44,852
Capital leases.....	-	-	-	12	-	-	-	3,096
Bonds, notes payable and other obligations.....	-	-	111,986	-	389,633	-	178,788	825,981
Other noncurrent liabilities.....	-	-	8,834	-	-	-	-	41,416
Total noncurrent liabilities.....	-	-	155,825	12	389,633	-	178,805	919,077
Total liabilities.....	15,069	1,099	166,061	51	393,407	1,357	190,799	1,164,408
Net assets								
Invested in capital assets, net of related debt.....	60	76	75	-	29,895	-	-	520,459
Restricted for:								
Investment programs.....	-	-	-	-	-	-	4,248	21,225
Other purpose.....	83,619	-	4,099	-	-	(43)	-	247,401
Unrestricted.....	928	14,621	12,729	983	(54)	443	(30,198)	217,988
Total net assets.....	\$ 84,607	\$ 14,697	\$ 16,903	\$ 983	\$ 29,841	\$ 400	\$ (25,950)	\$ 1,007,073

Non-Major Component Units
Statement of Revenues, Expenses
and Changes in Net Assets
June 30, 2001
(Amounts in thousands)

	Berkshire Regional Transit Authority	Brockton Area Transit Authority	Cape Ann Transportation Authority	Cape Cod Regional Transit Authority	Franklin Regional Transit Authority	Greater Attleboro/ Taunton Regional Authority	Greenfield Montague Transportation Area	Lowell Regional Transit Authority	Martha's Vineyard Transit Authority	Merrimack Valley Regional Transit Authority	Montachusett Regional Transit Authority
Operating revenues and expenses:											
Operating revenues:											
Charges for services.....	\$ 692	\$ 2,574	\$ 16,120	\$ 1,398	\$ 515	\$ 11,493	\$ 705	\$ 1,454	\$ 386	\$ 918	\$ 16,433
Other.....	-	-	23	-	-	1,607	-	53	-	518	-
Total Operating Revenues.....	692	2,574	16,143	1,398	515	13,100	705	1,507	386	1,436	16,433
Operating expenses:											
Cost of services.....	3,312	8,312	16,885	4,371	1,087	13,796	1,274	6,843	1,724	7,466	19,300
Administration costs.....	402	1,786	591	447	304	1,460	128	-	367	190	2,627
Depreciation.....	398	1,605	556	621	202	1,868	224	-	280	1,790	984
Total Operating Expenses.....	4,112	11,703	18,032	5,439	1,593	17,124	1,626	6,843	2,371	9,446	22,911
Operating Income (loss).....	\$ (3,420)	\$ (9,129)	\$ (1,889)	\$ (4,041)	\$ (1,078)	\$ (4,024)	\$ (921)	\$ (5,336)	\$ (1,985)	\$ (8,010)	\$ (6,478)
Nonoperating revenues (expenses):											
Operating grants.....	3,108	7,794	1,363	3,512	890	2,192	738	2,314	1,747	6,448	5,128
Interest income.....	44	115	77	92	9	-	12	76	13	79	114
Interest expense.....	(144)	(347)	(107)	(207)	(33)	(101)	(28)	(192)	(80)	(307)	(466)
Other nonoperating revenue (expense).....	32	-	-	-	13	68	-	367	32	-	719
Nonoperating Revenues (expenses), net.....	3,040	7,562	1,333	3,397	879	2,159	722	2,565	1,712	6,220	5,495
Income (loss) before contributions and operating transfer.....	\$ (380)	\$ (1,567)	\$ (556)	\$ (644)	\$ (199)	\$ (1,865)	\$ (199)	\$ (2,771)	\$ (273)	\$ (1,790)	\$ (983)
Capital contributions.....	359	1,269	-	2,323	93	1,240	30	2,836	3,244	-	2,431
Transfer to other funds.....	(9)	(16)	523	-	-	-	-	100	-	329	-
Net income (loss) for the year.....	\$ (30)	\$ (314)	\$ (33)	\$ 1,679	\$ (106)	\$ (625)	\$ (169)	\$ 165	\$ 2,971	\$ (1,461)	\$ 1,448
Depreciation on assets acquired with capital grants Change in Net Assets.....	-	-	556	641	-	-	-	(6,707)	-	1,790	-
Change in Net Assets.....	(30)	(314)	523	2,320	(106)	(625)	(169)	(6,542)	2,971	329	1,448
Net Assets - Beginning of Year.....	2,129	12,073	5,848	4,480	1,006	10,566	1,818	40,625	1,606	13,928	11,731
Net Assets - End of Year.....	\$ 2,099	\$ 11,759	\$ 6,370	\$ 6,800	\$ 900	\$ 9,941	\$ 1,649	\$ 34,083	\$ 4,577	\$ 14,257	\$ 13,179

Non-Major Component Units
Statement of Revenues, Expenses
and Changes in Net Assets
June 30, 2001
(Amounts in thousands)

	Nantucket Regional Transit Authority	Pioneer Valley Transit Authority	Southeastern Regional Transit Authority	Worcester Regional Transit Authority	Massachusetts Convention Center Authority	Massachusetts Development Finance Agency	Massachusetts Technology Park Corporation	Commonwealth Corporation	Commonwealth Zoological Corporation
Operating revenues and expenses:									
Operating revenues:									
Charges for services.....	\$ 192	\$ 8,271	\$ 1,824	\$ 9,671	\$ 18,397	\$ 9,654	\$ 53,259	\$ 280	\$ 2,598
Other.....	5	329	7,794	-	865	9,658	51	1,094	405
Total Operating Revenues.....	197	8,600	9,618	9,671	19,262	19,312	53,310	1,374	3,003
Operating expenses:									
Cost of services.....	698	6,858	5,831	22,608	14,146	19,138	25,131	56,820	7,407
Administration costs.....	193	21,271	3,756	628	11,038	5,074	3,681	3,647	2,075
Depreciation.....	163	6,294	2,155	2,167	8,922	4,574	699	-	690
Total Operating Expenses.....	1,054	34,423	11,742	25,403	34,106	28,786	29,511	60,467	10,172
Operating Income (loss).....	\$ (857)	\$ (25,823)	\$ (2,124)	\$ (15,732)	\$ (14,844)	\$ (9,474)	\$ 23,799	\$ (59,093)	\$ (7,169)
Nonoperating revenues (expenses):									
Operating grants.....	727	20,151	-	14,259	16,941	16,712	-	58,893	6,000
Interest income.....	-	378	-	108	357	10,767	6,601	284	367
Interest expense.....	(33)	(1,200)	(246)	(798)	(5,472)	(4,931)	-	-	(47)
Other nonoperating revenue (expense).....	-	1	126	(85)	(129)	5,476	245	(284)	859
Nonoperating Revenues (expenses), net.....	694	19,330	(120)	13,484	11,697	28,024	6,846	58,893	7,179
Income (loss) before contributions and operating transfer.....	\$ (163)	\$ (6,493)	\$ (2,244)	\$ (2,248)	\$ (3,147)	\$ 18,550	\$ 30,645	\$ (200)	\$ 10
Capital contributions.....	199	9,475	914	2,565	98,987	17,292	-	(69)	5,441
Transfer to other funds.....	-	-	-	-	-	-	-	-	-
Net income (loss) for the year.....	\$ 36	\$ 2,982	\$ (1,330)	\$ 317	\$ 95,840	\$ 35,842	\$ 30,645	\$ (269)	\$ 5,451
Depreciation on assets acquired with capital grants Change in Net Assets.....	-	-	-	-	-	-	-	-	-
Change in Net Assets.....	36	2,982	(1,330)	317	95,840	35,842	30,645	(269)	5,451
Net Assets - Beginning of Year.....	1,591	35,197	14,405	43,664	159,644	224,150	111,205	12,446	8,162
Net Assets - End of Year.....	\$ 1,627	\$ 38,179	\$ 13,075	\$ 43,981	\$ 255,484	\$ 259,992	\$ 141,850	\$ 12,177	\$ 13,613

Non-Major Component Units
Statement of Revenues, Expenses
and Changes in Net Assets
June 30, 2001
(Amounts in thousands)

	Community Economic Development Assistance Corporation	Massachusetts Community Development Finance Corporation	Massachusetts Housing Partnership	Massachusetts International Trade Council, Inc.	Route 3 North Transportation Improvement Association	Massachusetts Corporation for Education Telecommunication	Massachusetts State College Building Authority	Non-Major Component Units Total
Operating revenues and expenses:								
Operating revenues:								
Charges for services.....	\$ 1,263	\$ 1,004	\$ 9,381	\$ 116	\$ -	\$ 1,530	\$ 11,553	\$ 181,680
Other.....	14,574	14	6,322	71	-	697	262	44,342
Total Operating Revenues.....	15,837	1,018	15,703	187	-	2,227	11,815	226,022
Operating expenses:								
Cost of services.....	2,408	280	14,074	567	-	13,145	2,121	275,602
Administration costs.....	-	2,891	3,424	414	-	3,877	415	70,686
Depreciation.....	39	25	54	33	-	-	4,736	39,079
Total Operating Expenses.....	2,447	3,196	17,552	1,014	-	17,022	7,273	385,367
Operating Income (loss).....	\$ 13,390	\$ (2,178)	\$ (1,849)	\$ (827)	\$ -	\$ (14,795)	\$ 4,542	\$ (159,345)
Nonoperating revenues (expenses):								
Operating grants.....	328	-	-	1,102	-	7,105	-	177,452
Interest income.....	1,386	-	2,007	7	-	142	6,742	29,778
Interest expense.....	(348)	-	-	-	-	-	(10,989)	(26,076)
Other nonoperating revenue (expense).....	(451)	(396)	-	-	(54)	535	4,248	11,322
Nonoperating Revenues (expenses), net.....	915	(396)	2,007	1,109	(54)	7,782	1	192,476
Income (loss) before contributions and operating transfer.....	\$ 14,305	\$ (2,574)	\$ 158	\$ 282	\$ (54)	\$ (7,013)	\$ 4,544	\$ 33,131
Capital contributions.....	-	-	-	-	29,895	-	-	178,524
Transfer to other funds.....	-	-	-	-	-	-	-	927
Net income (loss) for the year.....	\$ 14,305	\$ (2,574)	\$ 158	\$ 282	\$ 29,841	\$ (7,013)	\$ 4,544	\$ 212,581
Depreciation on assets acquired with capital grants Change in Net Assets.....	-	-	-	-	-	-	-	(3,720)
Change in Net Assets.....	14,305	(2,574)	158	282	29,841	(7,013)	4,544	208,862
Net Assets - Beginning of Year.....	70,302	17,271	16,745	701	-	7,413	(30,493)	798,212
Net Assets - End of Year.....	\$ 84,607	\$ 14,697	\$ 16,903	\$ 983	\$ 29,841	\$ 400	\$ (25,950)	\$ 1,007,073



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STATISTICAL SECTION



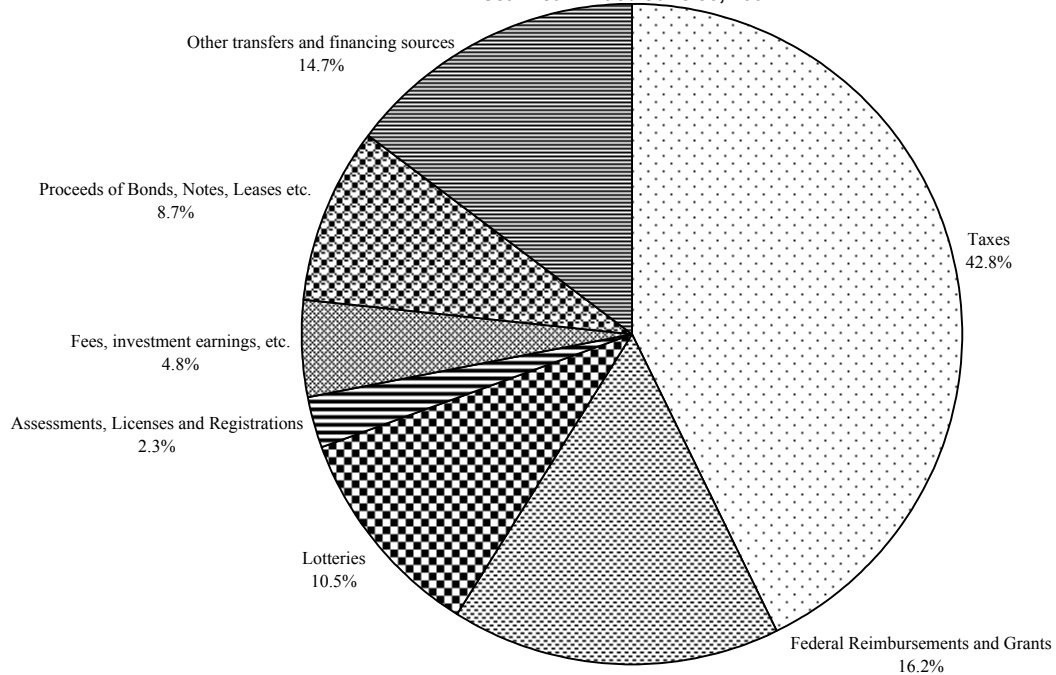
Ten-Year Schedule of Revenues and Other Financing Sources – All Governmental Fund Types
Ten-Year Schedule of Expenditures and Other Financing Uses by Secretariat – All Governmental Fund Types
Ten-Year Schedule of Percentage of Annual Debt Service Expenditures for General Bonded Debt
To Total Expenditures – All Governmental Fund Types
Ten-Year Schedule of Per Capita General Long-Term Bonded Debt
Component Units Revenue Bond Coverage for the Last Ten Fiscal Years
Calculation of Transfers - Stabilization Fund
Calculation of Transfers - Tax Reduction Fund
Ten-Year Schedule Of Massachusetts And United States Resident Population
Nonagricultural Employment By Sector and Industry In Massachusetts And The United States
Ten-Year Schedule Of Civilian Labor Force, Unemployment And Unemployment Rates
Twenty-Five Largest Private Sector Massachusetts Employers
Standard and Poors 500 Companies headquartered in Massachusetts
Ten-Year Schedule Of Massachusetts And United States Resident Per Capita Net Income

**Ten-Year Schedule Of Revenues And Other Financing Sources
All Governmental Fund Types Fund Perspective**

June 30, 2001
(Amounts in millions)

	2001	% Total	2000	% Total	1999	% Total	1998
Taxes.....	\$ 16,803	42.8	\$ 15,695	41.1	\$ 14,321	43.0	\$ 14,033
Federal reimbursements.....	4,716	12.0	4,496	11.8	4,213	12.7	4,385
Federal grants.....	1,644	4.2	1,565	4.1	1,456	4.4	1,470
Lotteries.....	4,136	10.5	3,914	10.3	3,570	10.7	3,392
Assessments.....	590	1.5	462	1.2	546	1.6	514
Motor vehicle licenses and registrations.....	311	0.8	285	0.7	281	0.8	295
Fees, investment earnings, etc.....	1,885	4.8	1,776	4.7	1,433	4.3	1,394
Proceeds of dedicated income tax bonds.....	-	-	-	-	-	-	-
Proceeds of general obligation bonds.....	1,769	4.5	1,762	4.6	1,015	3.0	1,347
Proceeds of special obligation bonds.....	-	-	-	-	-	-	100
Proceeds of grant anticipation notes.....	600	1.5	602	1.6	319	1.0	-
Proceeds of refunding bonds.....	999	2.5	-	-	499	1.5	862
Proceeds of capital lease.....	31	0.1	9	0.0	9	0.1	15
Operating transfers.....	5,566	14.2	7,502	19.7	4,555	13.7	3,338
Other financing sources.....	206	0.5	106	0.3	1,056	3.2	104
Total revenues and other financing sources.....	<u>\$ 39,256</u>	<u>100.0</u>	<u>\$ 38,174</u>	<u>100.0</u>	<u>\$ 33,273</u>	<u>100.0</u>	<u>\$ 31,249</u>

**Apportionment of Revenues by Source -
Fiscal Year Ended June 30, 2001**

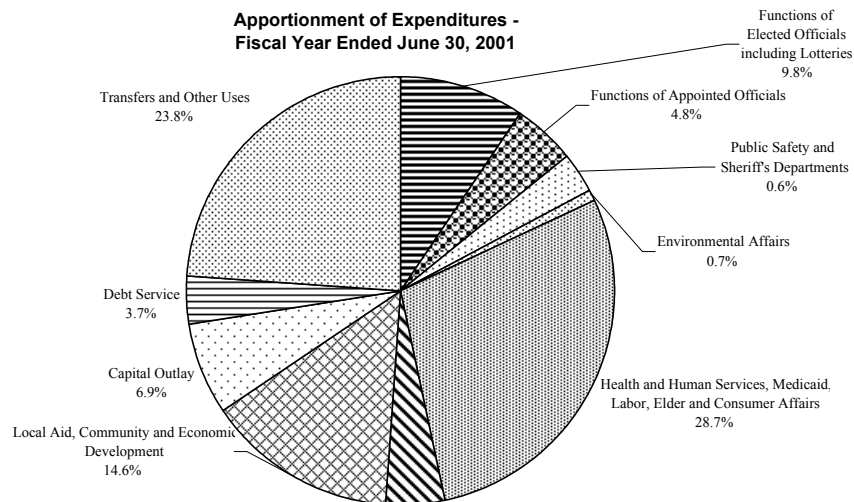


% Total	1997	% Total	1996	% Total	1995	% Total	1994	% Total	1993	% Total	1992	% Total
44.9	\$ 13,030	47.7	\$ 11,926	47.5	\$ 11,262	45.9	\$ 10,611	45.7	\$ 10,021	44.9	\$ 9,479	45.6
14.0	4,124	15.1	3,861	15.4	4,174	17.0	3,904	16.8	3,376	15.1	3,021	14.5
4.7	1,457	5.3	1,482	5.9	1,187	4.8	1,205	5.2	1,118	5.0	1,199	5.8
10.9	3,375	12.3	3,201	12.8	2,957	12.0	2,600	11.2	2,148	9.6	1,831	8.8
1.6	552	2.0	595	2.4	572	2.3	544	2.3	597	2.7	787	3.8
0.9	295	1.1	263	1.0	307	1.3	284	1.2	331	1.5	300	1.4
4.5	930	3.4	1,110	4.4	1,154	4.7	1,113	4.8	1,215	5.4	1,710	8.2
-	-	-	-	-	-	-	-	-	-	-	-	-
4.3	899	3.3	940	3.7	810	3.3	392	1.7	368	1.7	721	3.4
0.3	-	-	147	0.6	-	-	298	1.3	-	-	100	0.5
-	-	-	-	-	-	-	-	-	-	-	-	-
2.8	723	2.6	-	-	514	2.1	836	3.6	1,891	8.5	574	2.8
0.1	62	0.2	26	0.1	18	0.1	34	0.1	13	0.1	17	0.1
10.7	1,920	7.0	1,551	6.2	1,534	6.3	1,367	5.9	1,177	5.3	1,021	4.9
0.3	6	-	-	-	49	0.2	35	0.2	46	0.2	47	0.2
100.0	\$ 27,373	100.0	\$ 25,102	100.0	\$ 24,538	100.0	\$ 23,223	100.0	\$ 22,301	100.0	\$ 20,807	100.0

**Ten-Year Schedule Of Expenditures And Other Financing Uses By Secretariat
All Governmental Fund Types Fund Perspective**

June 30, 2001
(Amounts in millions)

	2001	% Total	2000	% Total	1999	% Total	1998	% Total
Legislature.....	\$ 57	0.2	\$ 51	0.1	\$ 51	0.2	\$ 51	0.2
Judiciary.....	597	1.6	544	1.4	511	1.6	470	1.5
Inspector General.....	2	-	2	-	2	-	2	-
Governor and Lieutenant Governor.....	6	-	6	-	5	-	5	-
Secretary of the Commonwealth.....	45	0.1	42	0.1	33	0.1	23	0.1
Treasurer and Receiver-General.....	3,335	8.8	3,483	9.2	2,783	8.6	2,649	8.7
Auditor of the Commonwealth.....	15	-	15	-	14	-	14	-
Attorney General.....	36	0.1	34	0.1	49	0.2	41	0.1
Ethics Commission.....	2	-	1	-	1	-	1	-
District Attorney.....	86	0.2	77	0.2	72	0.2	68	0.2
Office of Campaign and Political Finance.....	1	-	1	-	1	-	1	-
Sheriff's Department.....	201	0.5	178	0.5	134	0.4	40	0.1
Disabled Persons Protection Commission.....	2	-	2	-	2	-	2	-
Board of Library Commissioners.....	11	-	10	-	10	-	9	-
Comptroller.....	8	-	8	-	8	-	7	-
Administration and finance.....	1,202	3.3	1,192	3.1	1,056	3.3	1,058	3.5
Environmental affairs.....	253	0.7	241	0.6	232	0.7	216	0.7
Communities and development.....	442	1.2	405	1.1	356	1.1	351	1.2
Health and human services.....	5,622	15.0	5,324	14.0	5,160	15.9	5,058	16.6
Transportation and construction.....	162	0.4	228	0.6	137	0.4	117	0.4
Education.....	1,492	3.9	1,353	3.6	1,263	3.9	1,153	3.8
Educational affairs.....	-	-	-	-	-	-	-	-
Higher education.....	136	0.4	111	0.3	97	0.3	82	0.3
Public safety.....	955	2.5	879	2.3	860	2.6	853	2.8
Economic development.....	51	0.1	38	0.1	57	0.2	31	0.1
Elder affairs.....	241	0.6	217	0.6	197	0.6	179	0.6
Consumer affairs.....	71	0.2	70	0.2	68	0.2	57	0.2
Labor.....	172	0.5	188	0.5	166	0.5	186	0.6
Medicaid.....	4,761	12.6	4,381	11.5	3,829	11.8	3,638	12.0
Pension.....	318	0.8	398	1.0	324	1.0	414	1.4
Direct local aid.....	5,012	13.2	4,717	12.4	4,405	13.6	4,047	13.3
Capital outlay:								
Local aid.....	34	0.1	47	0.1	73	0.2	102	0.3
Capital acquisition and construction.....	2,566	6.8	2,469	6.5	2,602	8.0	2,532	8.3
Debt service.....	1,408	3.7	1,237	3.3	1,212	3.7	1,215	4.0
Other financing uses:								
Payments to refunded bond escrow agent.....	999	2.6	-	-	499	1.5	862	2.8
Transfers.....	7,526	19.9	10,073	26.5	6,193	19.1	4,883	16.1
Total expenditures and other financing uses.....	\$ 37,827	100.0	\$ 38,022	100.0	\$ 32,462	100.0	\$ 30,417	100.0



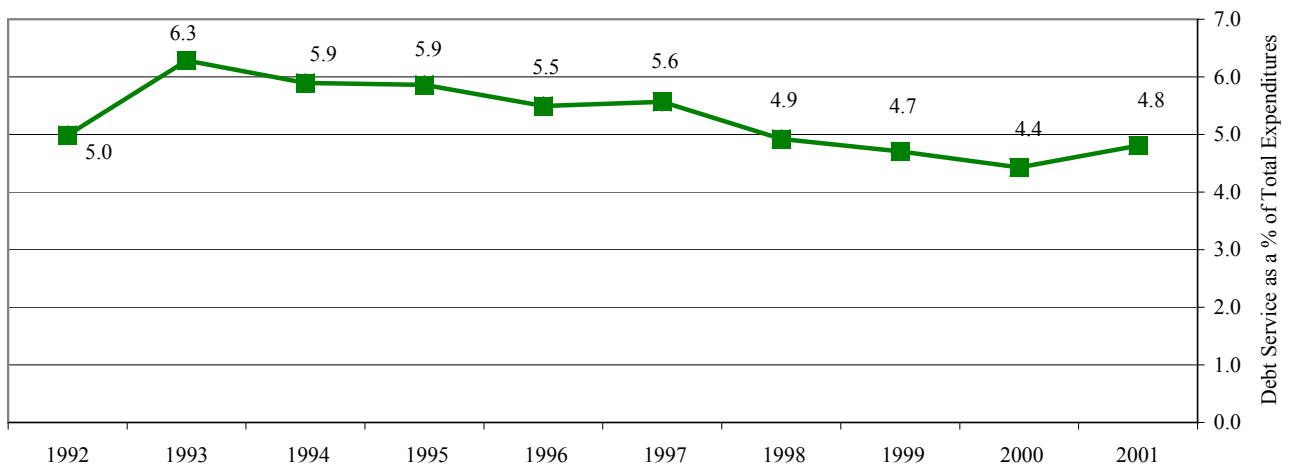
	1997	% Total	1996	% Total	1995	% Total	1994	% Total	1993	% Total	1992	% Total
\$	49	0.2	\$ 49	0.2	\$ 47	0.2	\$ 43	0.2	\$ 41	0.2	\$ 44	0.2
	433	1.6	404	1.7	356	1.5	338	1.5	306	1.4	315	1.6
	2	-	2	-	2	-	1	-	1	-	1	-
	5	-	5	-	5	-	4	-	4	-	4	-
	17	0.1	15	0.1	14	0.1	12	0.1	14	0.1	12	0.1
	2,711	10.0	2,576	10.5	2,353	9.7	2,052	8.9	1,659	7.4	1,379	6.8
	12	-	13	-	11	-	11	-	10	-	10	-
	5	-	29	0.1	22	0.1	38	0.2	36	0.2	18	0.1
	1	-	1	-	1	-	1	-	1	-	1	-
	62	0.2	55	0.2	51	0.2	47	0.2	44	0.2	39	0.2
	1	-	1	-	1	-	1	-	-	-	1	-
	-	-	-	-	-	-	-	-	-	-	-	-
	1	-	1	-	1	-	2	-	-	-	-	-
	6	-	4	-	5	-	5	-	5	-	4	-
	7	-	7	-	6	-	6	-	6	-	5	-
	937	3.5	943	3.9	876	3.6	863	3.7	682	3.0	833	4.1
	196	0.7	205	0.8	174	0.7	169	0.7	162	0.7	141	0.7
	344	1.3	347	1.4	340	1.4	358	1.6	364	1.6	397	2.0
	4,507	16.7	4,606	18.8	4,813	19.8	4,327	18.8	4,034	18.3	4,007	19.7
	151	0.6	155	0.6	112	0.5	120	0.5	273	1.2	92	0.5
	1,026	3.8	958	3.9	865	3.6	458	2.0	469	2.1	392	1.9
	-	-	14	0.1	6	-	3	-	10	-	17	-
	90	0.3	80	0.3	75	0.3	67	0.3	69	0.3	1,288	6.3
	860	3.2	841	3.4	732	3.0	693	3.0	611	2.7	658	3.2
	33	0.1	111	0.5	199	0.8	214	0.9	210	0.9	194	1.0
	174	0.6	155	0.6	161	0.7	155	0.7	150	0.7	137	0.7
	37	0.1	35	0.1	34	0.1	33	0.1	30	0.1	27	0.1
	189	0.7	121	0.5	24	0.1	24	0.1	24	0.1	19	0.1
	3,497	13.0	3,241	13.3	3,252	13.4	3,216	14.0	3,151	14.0	2,853	14.3
	413	1.5	382	1.6	414	1.7	830	3.6	893	4.0	751	3.7
	3,677	13.6	3,351	13.7	3,073	12.6	2,727	11.8	2,547	11.3	2,278	11.2
	181	0.7	116	0.5	94	0.4	100	0.4	105	0.5	87	0.4
	2,051	7.6	1,673	6.8	1,698	7.0	1,464	6.4	1,133	5.0	1,157	5.7
	1,278	4.7	1,192	4.9	1,234	5.1	1,152	5.0	1,143	5.1	901	4.4
	723	2.7	-	-	514	2.1	836	3.6	1,891	8.4	574	2.8
	3,311	12.3	2,753	11.3	2,732	11.2	2,651	11.5	2,364	10.5	1,654	8.2
\$	26,987	100.0	\$ 24,441	100.0	\$ 24,297	100.0	\$ 23,021	100.0	\$ 22,442	100.0	\$ 20,290	100.0

**Ten-Year Schedule Of Percentage Of Annual Debt Service Expenditures
For General Bonded Debt To Total Expenditures
All Governmental Fund Types Fund Perspective**

(Amounts in millions)

<u>Fiscal year ended June 30</u>	<u>Debt service</u>	<u>Total expenditures</u>	<u>Ratio</u>
2001	\$ 1,408	\$ 29,302	4.8
2000	1,237	27,949	4.4
1999	1,212	25,772	4.7
1998	1,215	24,672	4.9
1997	1,278	22,953	5.6
1996	1,192	21,688	5.5
1995	1,234	21,051	5.9
1994	1,151	19,534	5.9
1993	1,143	18,187	6.3
1992	901	18,062	5.0

Debt Service to Total Expenditures Ratio 1992 - 2001



Ten-Year Schedule Of Per Capita General Long-Term Bonded Debt

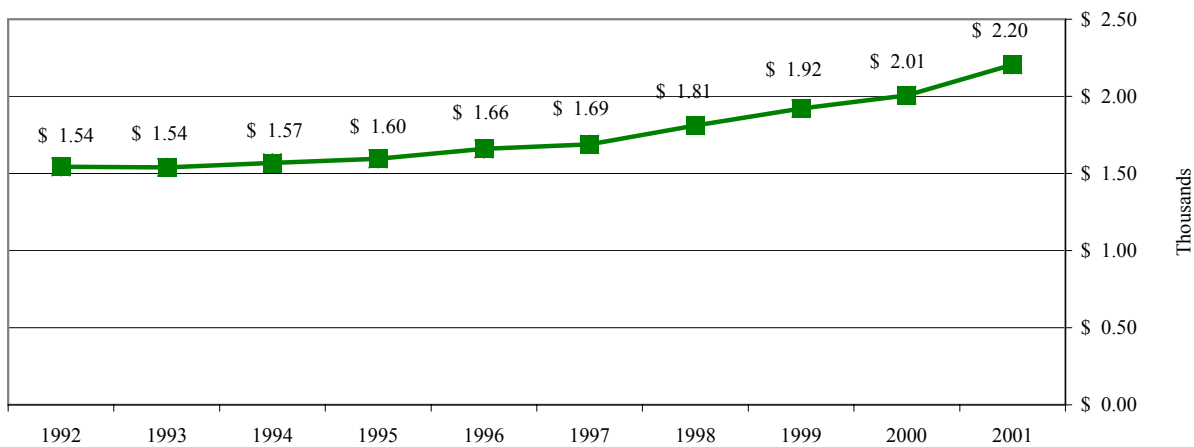
(Amounts in thousands)

Fiscal year ended June 30	Massachusetts Resident Population ⁽¹⁾	Total long- term bonds and notes payable	Per capita long-term debt
2001	6,349	\$ 13,999,454	\$ 2.20
2000	6,175	12,383,101	2.01
1999	6,144	11,808,461	1.92
1998	6,115	11,078,603	1.81
1997	6,085	10,271,294	1.69
1996	6,062	10,065,578	1.66
1995	6,031	9,628,466	1.60
1994	6,011	9,427,745	1.57
1993	5,993	9,231,458	1.54
1992	5,999	9,264,430	1.54

(1) Population estimates have been restated to most current Massachusetts Institute of Socio-Economic Research (MISER) data. Population data is reported as of 7/1 of the previous year. *Source: - MISER*

Per Capita Direct Commonwealth Debt 1992 - 2001

(thousands)



Component Units Revenue Bond Coverage For The Last Ten Fiscal Years

(Amounts in thousands)

Fiscal year ended June 30	Net revenues ⁽¹⁾	Debt service requirements ⁽²⁾	Coverage Ratio
2001	\$ 520,850	\$ 526,605	0.99
2000	600,812	510,876	1.18
1999	393,785	401,406	0.98
1998	372,672	344,884	1.08
1997	328,608	283,975	1.16
1996	288,599	275,068	1.05
1995	272,308	232,473	1.17
1994 ⁽³⁾	220,185	192,975	1.14
1993	332,195	305,156	1.09
1992	310,372	295,389	1.05

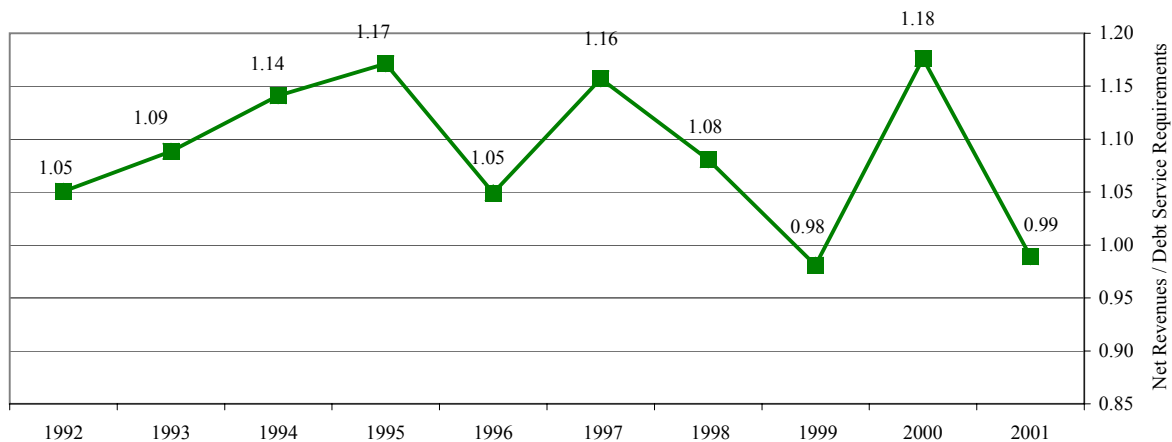
(1) Net revenues represent the regular recurring operating income (loss) plus operating grants transfers and depreciation of only those Authorities with revenue bonds outstanding

(2) Debt service requirements represent total debt service payments made less debt service paid on short-term borrowings of only those Authorities with revenue bonds outstanding

(3) Amounts are reflective of the implementation of the Governmental Accounting Standard Board Statement No. 14, "The Reporting Entity." Prior years have not been restated for incorporation of the new list of component units

Source: Office of the Comptroller

Component Units Revenue Bond Coverage 1992 - 2001





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Calculation Of Transfers: Stabilization Fund

June 30, 2001
(Amounts in thousands)

This statement is prepared on the statutory basis of accounting pursuant to General Law Chapter 29, Section 5c.

Part 1: Undesignated fund balance(deficit) in the Operating Funds:

	Total
General Fund.....	\$ 475,860
Highway Fund.....	(311,601)
Local Aid Fund.....	5,660
Undesignated fund balance before the transfers.....	\$ 169,919
Available to carry forward to subsequent fiscal year (per Schedule A).....	83,764
Consolidated net surplus before transfer to Capital Projects Fund.....	86,155

Part 2: Calculation of transfers to Capital Projects Fund

Transfer from General Fund to Capital Project Fund (per Schedule B).....	34,462
Net Consolidated surplus available for Stabilization Fund.....	\$ 51,693

Part 3: Calculation of transfers to Stabilization Fund

From the General Fund, @ 60%.....	\$ 31,016
From the Local Aid Fund, @ 40%.....	20,677
Total Transfers.....	\$ 51,693

Part 4: Status of Consolidated Net Surplus after Stabilization Fund transfers:

Undesignated fund balance:	
General Fund.....	410,382
Highway Fund.....	(311,601)
Local Aid Fund.....	(15,017)
Consolidated Net Surplus.....	\$ 83,764

Part 5: Status of Stabilization Fund after transfers

Reserved for Stabilization - Balance as of June 30, 2001 before the transfers	\$ 1,689,227
FY2001 Calculated Transfers to Stabilization Fund (per Part 3)	51,693
Reserved for Stabilization after the transfers.....	\$ 1,740,920

Part 6: Amounts reserved for Capital Projects

Reserved for Capital Projects - Balance as of June 30, 2001 before the transfers	\$ -
FY2001 Calculated Transfers to Capital Projects Fund (per Schedule B)	34,462
Balance available.....	\$ 34,462

Calculation Of Transfers: Tax Reduction Fund

June 30, 2001
(Amounts in thousands)

This statement is prepared pursuant to Chapters 29 and 29B of the Massachusetts General Laws. It is prepared on the statutory basis of accounting and presents information contained in the official books and accounting records of the Commonwealth. Support

The computation is as follows:

Part 1: Comparison of Stabilization Fund, after current fiscal year transfers,
to 7.5% of Budgeted Revenues and Other Financial Resources:

Undesignated Fund Balance in the Stabilization Fund.....	\$ 1,740,920
Allowable Stabilization Balance (per Schedule C).....	<u>1,714,990</u>
Stabilization Fund Excess, if any, transferable to Tax Reduction Fund.....	<u>\$ 25,930</u>

Part 2: Status of Stabilization Fund after transfers:

Stabilization Fund Balance.....	\$ 1,740,920
Transfer to Tax Reduction Fund.....	<u>25,930</u>
Stabilization Fund Balance after transfer to Tax Reduction Fund.....	<u>\$ 1,714,990</u>

Part 3: Status of Tax Reduction Fund after transfers:

Tax Reduction Fund Balance.....	\$ 7,635
Transfers from Stabilization Fund.....	<u>25,930</u>
Tax Reduction Fund Balance after transfers.....	<u>\$ 33,565</u>

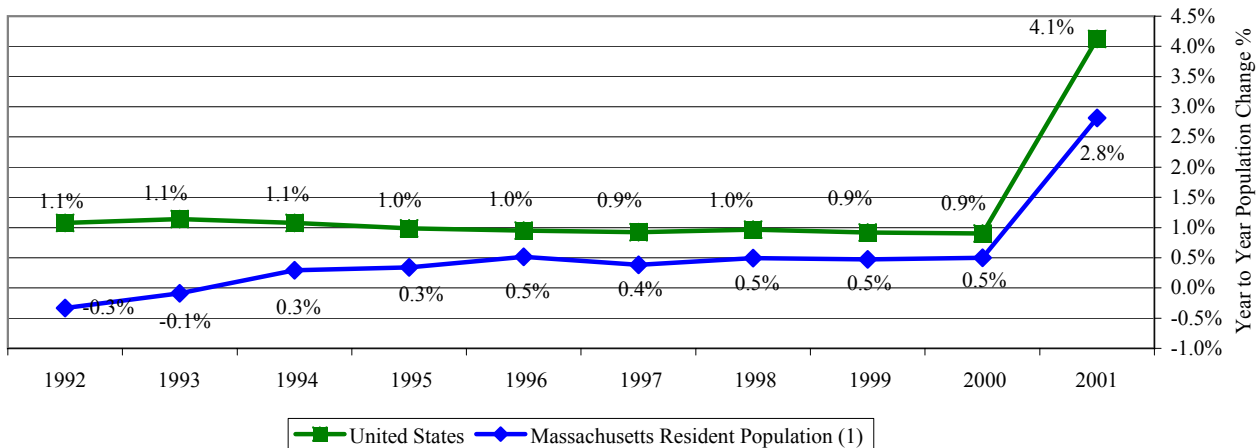
Ten-Year Schedule Of Massachusetts And United States Resident Population

(Amounts in thousands)

Year	United States	% Change	Massachusetts Resident Population ⁽¹⁾	% Change	Massachusetts as % of U.S.
2001	283,941	4.1%	6,349	2.8%	2.2%
2000	272,691	0.9%	6,175	0.5%	2.3%
1999	270,248	0.9%	6,144	0.5%	2.3%
1998	267,784	1.0%	6,115	0.5%	2.3%
1997	265,229	0.9%	6,085	0.4%	2.3%
1996	262,803	1.0%	6,062	0.5%	2.3%
1995	260,327	1.0%	6,031	0.3%	2.3%
1994	257,783	1.1%	6,011	0.3%	2.3%
1993	255,030	1.1%	5,993	-0.1%	2.4%
1992	252,153	1.1%	5,999	-0.3%	2.4%

(1) Population estimates have been restated to most current Massachusetts Institute of Socio-Economic Research (MISER) data. Population data is reported as of 7/1 of the previous year. *Source: - MISER*

**Massachusetts and United States Estimated Year- to- Year Population Change
1992 - 2001**



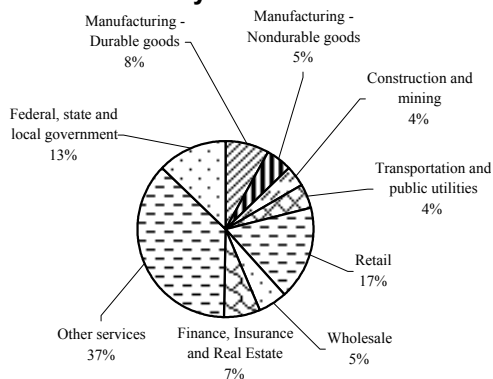
Nonagricultural Employment By Sector and Industry In Massachusetts And The United States For 2001

(Amounts in thousands)

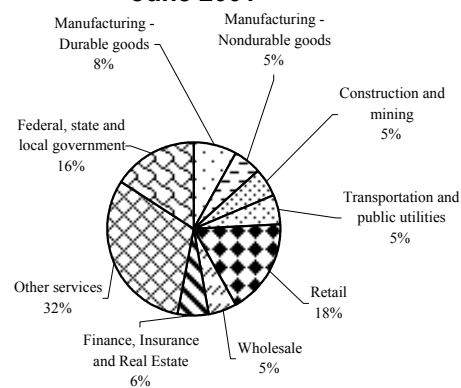
Type of industry	Massachusetts	% of MA Total	United States	% of U.S. Total	MA % vs. U.S. %
Manufacturing:					
Durable goods	267	7.9%	10,695	8.1%	97.8%
Nondurable goods	159	4.7%	7,071	5.4%	88.1%
Total manufacturing	426	12.7%	17,766	13.5%	93.9%
Non-manufacturing:					
Construction and mining	139	4.1%	6,867	5.2%	79.3%
Transportation and public utilities	146	4.3%	7,114	5.4%	80.4%
Retail	576	17.1%	23,570	17.9%	95.7%
Wholesale	177	5.3%	7,022	5.3%	98.8%
Finance, Insurance and Real Estate	231	6.9%	7,631	5.8%	118.6%
Other services	1,244	37.0%	41,087	31.2%	118.6%
Federal, state and local government	427	12.7%	20,815	15.8%	80.4%
Total Non-manufacturing	2,940	87.3%	114,106	86.5%	100.9%
Total	3,366	100.0%	131,872	100.0%	

Source: - Federal Reserve Bank of Boston, "New England Economic Indicators." September 2001 edition reflecting June 2001 results.

**Massachusetts Employment by
Industry June 2001**



**United States Employment by Industry
June 2001**



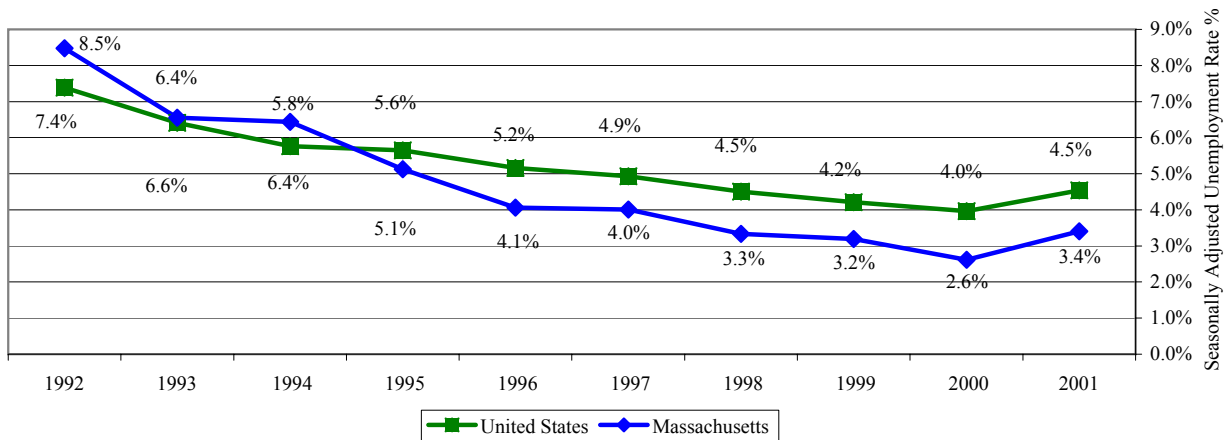
**Ten-Year Schedule Of Annual Average Civilian Labor Force,
Unemployment And Unemployment Rates
For Massachusetts And The United States**

(Amounts in thousands)

Year	Massachusetts			United States			Massachusetts Rate as % of U.S. Rate
	Labor Force	Unemployment	Unemployment Rate %	Labor Force	Unemployment	Unemployment Rate %	
2001	3,350	114	3.4%	141,354	6,422	4.5%	74.9%
2000	3,287	86	2.6%	140,762	5,583	4.0%	65.9%
1999	3,278	105	3.2%	139,369	5,876	4.2%	75.8%
1998	3,273	109	3.3%	137,665	6,202	4.5%	73.9%
1997	3,261	131	4.0%	136,290	6,725	4.9%	81.2%
1996	3,176	129	4.1%	134,574	6,948	5.2%	78.7%
1995	3,161	162	5.1%	132,440	7,476	5.6%	90.8%
1994	3,183	205	6.4%	131,836	7,600	5.8%	111.7%
1993	3,158	207	6.6%	128,633	8,252	6.4%	102.2%
1992	3,126	265	8.5%	126,983	9,384	7.4%	114.7%

Source: - Federal Reserve Bank of Boston, "New England Economic Indicators." September 2001 edition reflecting June 2001 results.

**Massachusetts and United States Unemployment Rates
1992 - 2001**



Twenty-Five Largest Private Sector Massachusetts Employers

<u>Employer</u>	<u>Headquarters</u>	<u>Product or Service</u>	<u>Massachusetts Employees</u>	<u>2000 Revenues (\$millions)</u>
President and Fellows of Harvard College	Boston	University	15,000	Privately Held
UMASS Memorial Hospitals	Worcester	Hospital	8,683	184
FMR Corp. (Fidelity Investments)	Boston	Investments	8,500	Privately Held
Fleet Boston	Boston	Banking	8,500	14,880
State Street Bank and Trust Company	Boston	Banking	7,619	3,615
The Brigham and Women's Hospital	Boston	Hospital	7,500	920
Boston Medical Center Corporation	Boston	Hospital	6,600	34
Raytheon Company	Lexington	Electronics / Defense	6,000	16,895
Putnam Investment	Boston	Investments	6,000	675
Liberty International Holdings (Liberty Mutual Insurance)	Boston	Insurance	5,750	4,690
Norton Company	Worcester	Abrasives	5,500	2,314
Stone & Webster Engineering / Construction	Boston	Construction	5,400	720
Caritas Christi Inc. / St. Elizabeth's Medical Center	Boston	Hospital	5,327	235
Beth Israel Deaconess Medical Center	Boston	Hospital	5,000	731
John Hancock Life Insurance Company / John Hancock Financial Services	Boston	Insurance	4,650	13,525
Quaker Fabrics	Fall River	Textiles	4,356	423
Bose Systems Corporation	Framingham	Electronics	4,000	1,553
The Children's Hospital Corporation	Boston	Hospital	3,832	486
The Massachusetts General Hospital	Boston	Hospital	3,647	1,013
New England Medical Center	Boston	Hospital	3,620	1,060
North Shore Medical Center	Lynn	Hospital	3,524	Not Reported
Lahey Clinic	Burlington	Hospital	3,500	700
NSTAR Electric & Gas Corporation	Boston	Utility	3,400	2,700
Modern Continental Construction Company	Boston	Construction	3,000	634
Dennison Manufacturing Company (Avery Dennison Corporation)	Framingham	Office Products	3,000	500

Sources: - Rankings - "D & B Business Rankings, Boston Edition" 2002 Edition, Dun & Bradstreet. Pages E1-3. Courtesy of the Kirstein Business Branch of the Boston Public Library. Revenue - D & B Business Rankings "sales volume" as well as companies' annual reports "operating revenue." Actual employee numbers maybe higher due to various companies' subsidiaries below 1,800 employees not counted.

Standard and Poors 500 Companies Headquartered in Massachusetts

<u>Company</u>	<u>Stock Symbol</u>	<u>Headquarters</u>	<u>Product or Service</u>	<u>Worldwide Employees</u>	<u>Latest Audited Revenues (\$millions)</u>	<u>Fortune 500 Rank</u>	
						<u>2001</u>	<u>2000</u>
FleetBoston Financial	FBF	Boston	Banks	53,026	\$ 22,608	81	80
Raytheon Co. (New)	RTN	Lexington	Aerospace & Defense	93,696	18,321	111	82
Staples Inc.	SPLS	Framingham	Specialty Stores	37,985	10,674	178	192
Gillette Co.	G	Boston	Personal Products	35,200	9,986	188	172
TJX Companies Inc.	TJX	Framingham	Apparel Retail	77,000	9,579	195	196
EMC Corp.	EMC	Hopkinton	Computer Storage & Peripherals	24,175	8,873	216	260
State Street Corp.	STT	Boston	Diversified Financial Services	19,355	5,921	304	345
Thermo Electron	TMO	Waltham	Electronic Equipment & Instrum	21,461	3,886	430	369
Analog Devices	ADI	Norwood	Semiconductors	9,000	2,578	-	-
Biogen, Inc.	BGEN	Cambridge	Biotechnology	1,475	927	-	-
Boston Scientific	BSX	Natick	Health Care Equipment	13,500	2,664	-	-
Millipore Corp.	MIL	Bedford	Electronic Equipment & Instrum	4,200	600	-	-
Parametric Technology	PMTCT	Needham	Application Software	4,000	935	-	-
PerkinElmer, Inc.	PKI	Wellesley	Electronic Equipment & Instrum	13,000	1,695	-	-
Reebok International	RBK	Canton	Footwear	6,000	2,865	-	-
Sapient Corp.	SAPE	Cambridge	IT Consulting & Services	2,300	503	-	-
Teradyne, Inc.	TER	Boston	Semiconductor Equipment	10,000	3,044	-	-

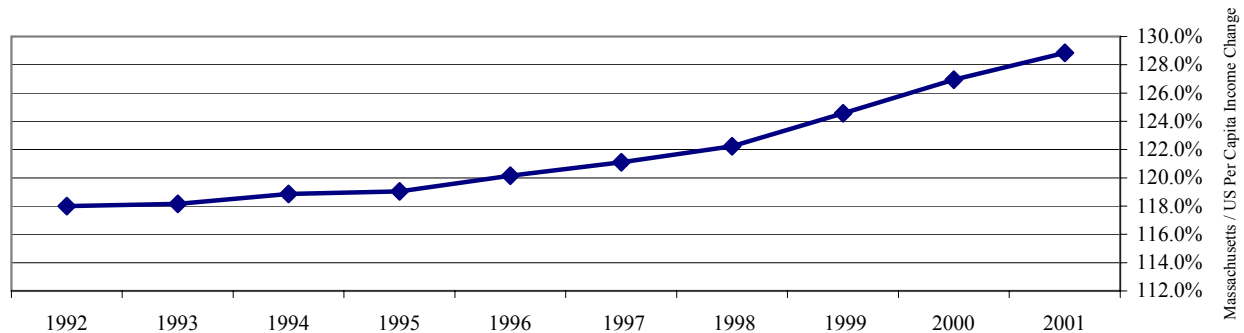
Sources: - Standard and Poors (from Standardandpoors.com) and Fortune Magazine (from fortune.com)

Ten-Year Schedule Of Massachusetts And United States Resident Per Capita Net Income

Year	United States	% Change	Massachusetts	% Change	Massachusetts as % of U.S.
2001	30,932	2.4%	39,855	3.9%	128.8%
2000	30,209	5.8%	38,351	7.9%	126.9%
1999	28,542	4.5%	35,551	6.5%	124.6%
1998	27,322	5.6%	33,394	6.6%	122.2%
1997	25,874	5.0%	31,332	5.8%	121.1%
1996	24,651	4.6%	29,618	5.6%	120.1%
1995	23,562	4.3%	28,051	4.5%	119.1%
1994	22,581	4.0%	26,841	4.6%	118.9%
1993	21,718	3.0%	25,664	3.2%	118.2%
1992	21,082	4.9%	24,876	4.7%	118.0%
1991	20,089	2.6%	23,749	2.3%	118.2%

Source: - United States Department of Commerce, Bureau of Economic Analysis, 2001 as of June 30, 2001, population for per capita calculation from MISER

**Massachusetts vs. United States Year- to- Year Per Capita Net Income Change
1992 - 2001**





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